

# **NAVAL POSTGRADUATE SCHOOL**

## **MONTEREY, CALIFORNIA**



## **THESIS**

**THE IMPACT OF U.S. ARMS TRANSFER POLICIES  
ON RECIPIENT STATE FORCE PLANNING AND  
READINESS**

by

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December, 1995

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Although one of the goals of the U.S. security assistance program is to strengthen the national security of friendly nations, this program has adopted and continues to adopt policies that impact negatively on its customers. This thesis focuses on the largest program element of the overall security assistance program, Foreign Military Sales (FMS), which is conducted under the authority of the Arms Export Control Act of 1976.

After explaining the U.S. security assistance program's evolution and policies, the FMS process, and the follow-on support, this thesis addresses three areas that affected the recipient procurement planning; the FMS contract clauses, the pricing, and financing. Second, it addresses the FMS case implementation process that affected the fielding of defense material to recipient's units. Finally, the effect on the recipient weapon system readiness is addressed. Readiness is addressed by first examining the reliability of what is considered by the Department of Defense (DoD) to be the most effective means, the Cooperative Support Supply Arrangement (CLSSA), to replenish the customers' in-country stock of spare and repair parts. Second, as a result of U.S. policy of not considering the ammunition and its components in the CLSSA program, the problems that are facing the customers in regard to the procurements of ammunition through the normal channels are addressed.

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FORCE PLANNING AND READINESS**

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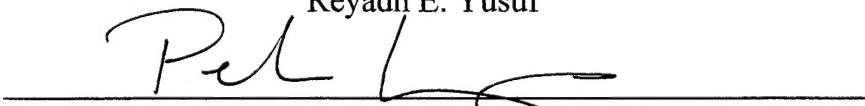
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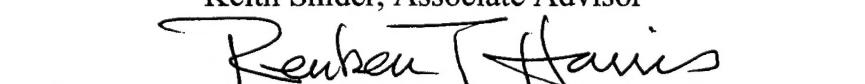


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## **ABSTRACT**

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After explaining the U.S. security assistance program's evolution and policies, the FMS process, and the follow-on support, this thesis addresses three areas that affected the recipient procurement planning; the FMS contract clauses, the pricing, and financing. Second, it addresses the FMS case implementation process that affected the fielding of defense material to recipient's units. Finally, the effect on the recipient weapon system readiness is addressed. Readiness is addressed by first examining the reliability of what is considered by the Department of Defense (DoD) to be the most effective means, the Cooperative Support Supply Arrangement (CLSSA), to replenish the customers' in-country stock of spare and repair parts. Second, as a result of U.S. policy of not considering the ammunition and its components in the CLSSA program, the problems that are facing the customers in regard to the procurements of ammunition through the normal channels are addressed.



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## I. INTRODUCTION

### A. BACKGROUND

Senator Sam Nunn, D-GA., Chairman of the Armed Services Committee, said in a hearing, of the Gulf Cooperation Council (GCC), on 5 February 1992, "It seems that these countries have decided they would rather look to the United States than strengthen their forces."<sup>1</sup>

In response to the Senator's statement, two simple questions must be addressed. How could these countries strengthen their forces while the Congress, in most cases, is denying important arms sales to those countries? How could these countries improve their capabilities when the arms control advocates are condemning the United States' role as the leading provider of arms to the region and calling for policy changes that would greatly restrict arms sales?

Along with the hurdles set by the Congress and the calls for arms restrictions, the main method of providing security assistance, Foreign Military Sales (FMS), contains policies that impact negatively on its customers. These impacts are evident in the FMS case implementation, the delivery of the defense articles, the pricing of case, and logistical support.

When the customer signs and pays an initial deposit for an FMS case, he will have to wait for that case to be implemented. The implementation date, the basis for the delivery date, can be lengthy and in some cases may extend to over a year.

Once the FMS case is implemented and the delivery date is set, the customer cannot expect the delivery on that date, simply because everything is estimated. The customer can still expect delays in the delivery of the items that can extend to years. It is obvious that the case closure will be affected. In some cases an item will never be delivered, and the customer must accept closing the case without receiving that item.

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<sup>1</sup> Philip Finnegan, "Fractured Cooperation May Dash Gulf Security; Iranian Rearmament Poses New Threat To Mideast Nations," *Defense News*, 7, no. 10 (16 March 1992): 6.

FMS customers have enjoyed the use of Special Defense Acquisition Funds (SDAF), which were initiated by the Reagan administration. The SDAF enables the Department of Defense (DoD) to reduce customer waiting time for selected items and improve the department's response to emergency foreign requirements. It is unfortunate that under the Clinton administration the SDAF was reduced in a defense cut. It has not been recapitalized for FY 1994 with the anticipation that it could totally defunct by FY 1998.

The prices in an FMS case are estimates. The difference between the estimate and the actual price can vary by more than 10 percent of the initial price. The increase in prices, in most cases, affect the customer's budgeting, and ultimately the execution of other projects.

The logistic support for the weapon system, once delivered, may be done via a special program called Cooperative Logistics Supply Support Arrangement (CLSSA). This program, which is designed to provide responsive follow-on supply support to the purchaser on an equal basis with the United States units, has been highly criticized for its poor performance. Major weapon systems readiness, a major factor required to win an evenly matched war or to sustain a defense for a period of time until support is received, is also disrupted due to the policies of the CLSSA program. The U.S. DoD had taken into account readiness, and for that reason the CLSSA is established, but it seems that consideration up until now was only given to repairable parts with no attention being given to ammunition and ammunition components.

Collectively, those policies are affecting the planning and readiness of the recipient forces. For a small country like Bahrain, that is heavily dependent on the FMS in building its moderate size defense forces, good planning and timely weapon system delivery and readiness are important factors affecting Bahrain's ability to absorb the initial attack and sustain a defense until support is received from outside.

It is clear that the Bahrain Defense Force (BDF) is becoming more capable, but so are the threats. As indicated by General Joseph Hoar, Commander in Chief of the U.S. Central Command in 1992, in a congressional hearing on 5 March 1992:

Iran has been rebuilding its military at an increasing pace in an effort to re-establish itself as a prominent regional power. Iraq too presents dangers for gulf nations. If the sanctions are not maintained, it is possible for Iraq's military to return to pre-August 1990 levels within eight to nine years.<sup>2</sup>

Bahrain has demonstrated over time its support for U.S. policy in the region. In his book, *It Doesn't Take A Hero*, General H. Norman Schwarzkopf, Commander of the Allied Forces in the Gulf War, said:

The tiny island emirate of Bahrain had favored a U.S. presence in the gulf. It had hosted the headquarters of the Navy's Middle East Force since the Truman era. Despite criticism from other gulf nations, the emir of Bahrain had remained steadfast in his commitment, and his kingdom was without doubt America's best friend in the Middle East. Some of its neighbors now realize that, had Bahrain barred the U.S. Navy from its port, the outcome of the tanker war would have been quite different.<sup>3</sup>

The Arabian Gulf region, in all likelihood, will remain a crucial American interest through the next several decades. The world depends on the petroleum reserves of the Gulf region to fuel its economic engine. In his recent book, former U.S. Chairman of the Joint Chiefs of Staff, Colin Powell, described the free flow of oil from the Gulf as crucial to the U.S. as blood pumping through an artery.<sup>4</sup>

The U.S. offers security assistance to strengthen the national security of friendly nations, and to support existing or prospective democratic institutions and market economics. As the U.S. seeks to shape the emerging post-cold war international environment, security assistance provides a vital element of continuity and contributes to secure, stable relationships. The threats to U.S. interests, which recent experience shows will continue to arise, and the instability which invariably accompanies changing times, require policies that support independent political development, promote stability, and encourage rational economic development and reform.

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<sup>2</sup> Ibid.

<sup>3</sup> H. Norman Schwarzkopf, *It Doesn't Take A Hero* (New York: Bantam Books, 1992), 322-3.

<sup>4</sup> Colin Powell, *My American Journey* (New York: Random House, 1995), 527.

With the end of the cold war and the disintegration of the Soviet Union comes the desire to attain peace dividends in the form of a reduced defense budget and the rapid downsizing of the U.S. military structure. Nevertheless, programs which protected and advanced U.S. interest during the cold war clearly now require reconsideration and reform to meet the challenges of the new environment.

These challenges make it difficult for the U.S. to defend the free world's interest, to assure reasonable access to raw materials that are becoming ever more scarce, and to assure freedom of access to the sea lines, without which international trade could not readily be conducted or seaborne support for the U.S. forces or its allies provided in time of war.

The Iraqi invasion of Kuwait on 2 August 1990 ultimately demonstrated the value of past security assistance programs during the conduct of the war and the responsiveness of the security assistance community during the war. However, it also shows how costly a war can be. Besides its direct cost of about \$61.1 billion, the Gulf war still has its effect on the people, environment, agriculture, economy, and water resources.

The United States must in today's world improve its security assistance programs' policies to better support its friends so that the chance of U.S. forces being deployed in a crisis are reduced, to insure regional stability, to allow friends to participate in regional or collective defense arrangements, and to protect its competitive position in markets.

Such improvements shall reduce the problems that involve the timing of the mechanism of military response and will enable the U.S. and its allies to respond more quickly to aggression. It will also avail tactical advantages, providing coalition forces direct defense to defeat aggression, rather than depending on the more expensive counterattack to regain lost territory.

This thesis will focus on the following issues that affect the planning and readiness in BDF:

- Implementation and Delivery Process.
- Pricing and Financing.

- Cooperative Logistics Supply Support Arrangement (CLSSA) program.

## B. RESEARCH OBJECTIVES

Focusing on Foreign Military Sales (FMS), the primary objective of this thesis is to answer: What is the impact of U.S. arms transfers policies on recipient force planning and readiness? The focus will be on the Bahrain Defense Force (BDF).

The FMS is governed and directed by the policies of the U.S. security assistance which are viewed differently by each administration. This thesis shall first address the U.S. security assistance and the policies of U.S. arms transfer starting with the Reagan's administration, where it was regarded as a "vital and constructive instrument"<sup>5</sup> of the American foreign policy, until the Clinton administration where a new direction is considered as set forth by Secretary Christopher "with the new centrality of economic policy in our foreign policy."<sup>6</sup>

Next FMS processes, as set forth in the DoD publications, will be explored with an emphasis on the issues causing the effects outlined earlier. Then direct commercial sales, an alternative to the FMS, will be described. Additionally, the way that BDF is employing the FMS shall also be explored. Finally, even though the FMS is criticized by its customers, they still prefer it over direct commercial sales. What are their reasons?

Finally, this thesis will illustrate the problems that are caused by the DoD policies, and the findings will be summarized.

## C. ORGANIZATION OF THE THESIS

Chapter II, U.S. Security Assistance, describes the U.S. security assistance as follows: (1) its background (2) the evolution of its policies, (3) description of its programs, (4) the elements of the U.S. policy in the Arabian Gulf, (5) the position of the U.S. in the arms market, and (6) chapter summary.

Chapter III focuses on the Foreign Military Sales Description. This chapter is organized as follows: (1) background, (2) FMS process from the forward

<sup>5</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition (Dayton: Wright-Patterson AFB., 1994), 25.

<sup>6</sup> Ibid.28.

planning phase to the case closure phase, (3) description of the initial and follow-on supports to the customers, (4) the FMS financial aspects, (5) description of the direct commercial sales, and (6) chapter summary.

Chapter IV, addresses the Bahrain Defense Force and its dealings with the FMS. This chapter is organized as follows: (1) background of the State of Bahrain, the evolution of the Bahrain Defense Force (BDF), BDF and the Gulf Cooperation Council, BDF and the United States, and application of FMS for the BDF, (2) BDF's in-house mechanism, used to deal with the FMS, (3) the advantages of both the FMS and the DCS, from the BDF perspective, and (4) chapter summary.

Chapter V considers the impact of U.S. FMS policies on BDF. This chapter, after the introduction addresses: (1) impact on BDF's procurement planning, (2) impact on BDF's supply support and weapon system readiness, and (3) chapter summary.

Chapter VI, addresses: (1) the summary of the thesis and (2) the recommendations.

## II. U.S. SECURITY ASSISTANCE

### A. INTRODUCTION

Security assistance has been part of international relations as long as man has been preparing for and engaging in war. Whenever it is assumed to be in the best interests of one nation to give or sell arms or other military support to another, arms transfers of some type have taken place. The supply and demand for arms has been, and remains, a natural consequence of the desire for achieving national goals while at the same time maintaining national security.<sup>7</sup>

In the postwar world, arms transfers have been used primarily by the industrialized states in the Northern Hemisphere to promote a wide range of political and military objectives. For the United States and the Soviet Union, which together until recently dominated the arms transfer market, arms transfers have played a prominent role in their geostrategic competition. Primarily, arms transfers were used to promote five broad categories of objectives:

- To support recipient regime stability.
- To ensure forward basing opportunities.
- To increase influence in areas of strategic competition.
- To affect regional balances of power.
- To attempt to influence the orientation of recipient regimes on a host of regional and global issues.

A host of secondary objectives may also be identified. For example, for the U.S. Government, arms transfers were frequently used to promote internal security and self-sufficiency in defense for recipient regimes, as well as to augment the commonality of defense capabilities and joint defense arrangements for an array of client states. This occurred as successive administrations attempted to maintain the international status quo through the implementation of a containment policy. This policy was heavily dependent on a bilateral and

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<sup>7</sup> Ibid.10.

multilateral structure of alliances with anticommunist regimes on the periphery of the Soviet Union or in areas of potential Soviet penetration. The capability to ensure forward basing for military forces, including base rights, overflight privileges, the emplacement of intelligence-gathering facilities, and the prepositioning of war material, became an important element of these competing Soviet and U.S. strategic orientations. Arms transfers were used to secure access, leverage, and influence in key recipient regimes, to influence their orientations on a plethora of international and regional issues of importance to the supplier's conception of its security interests, to promote access to strategic resources, and to influence regional balances of power in political and overtly military ways.<sup>8</sup>

The recipients of these arms for the most part had their own agendas, which did not necessarily correlate to the global communist-anticommunist struggle but rather related in direct ways to their own, more traditional, and often more immediate conceptions of security. Regardless of the purpose, the nations of the world have demonstrated an almost insatiable appetite for the acquisition of modern armaments. The incidence of interstate and intrastate violence is grim testament not only to the level of insecurity in the international system but also to the condition that prudence in preparing for war is almost universally viewed as the *sine qua non* of promoting national security. As a consequence, nations throughout the world seek modern arms. The resultant international traffic in arms for the most part reflects the disparities in technological development and industrial capability that exist between suppliers and recipients.<sup>9</sup>

Before the mechanism of the U.S. arms trade is explained in Chapter III, the policies of the U.S. security assistance that govern and direct that mechanism shall be explored in this chapter.

The organization of this chapter shall start with a background of U.S. security assistance, where its history and definition will be explored. Second, the evolution of U.S. arms trade policies from Reagan to Clinton will be addressed. Third, the seven elements of the security assistance will be explained. Fourth,

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<sup>8</sup> David J. Louscher and Michael D. Salomone, *Marketing Security Assistance* (Lexington: Lexington Books, 1987), 1.

<sup>9</sup> Ibid. 2.

focusing on the Arabian Gulf, the U.S. policy will be addressed. Finally, the U.S. position in world arms sales will be examined.

## B. BACKGROUND

### 1. History

After the Second World War, the term used for transfers was changed from "aid" to "trade," arms have become more sophisticated, the focus of the arms trade has shifted to Third World countries, and more countries have been able to procure advanced and sophisticated arms.<sup>10</sup> The Truman Doctrine of 1947 marked the beginning of the American policy of "long-term, patient but firm and vigilant containment of Russian expansion tendencies." Truman found himself beset by serious problems when the war ended in 1945. In Europe the Soviet Union, a former U.S. ally, had become hostile to U.S. interest. Additionally, the Soviet Union heightened international anxiety when it seized control of several small Eastern European countries and threatened the independence of Turkey and Greece. Soviet-supported communist guerrilla action in Greece, and Soviet diplomatic pressure in Turkey, were causes for great concern to President Truman. He believed the unrest in Greece and the overt Soviet political action in Turkey were blatant attempts to establish a strong communist presence in the region. Truman also felt that the spread of Soviet hegemony was inimical to the national interest of America, especially in the non-Communist parts of the Balkans, Asia Minor, and the Arabian Gulf region.<sup>11</sup>

In support of his views, Truman initiated an emergency request in March 1947 for \$400 million to aid Greece and Turkey, a request which came to be known as the Truman Doctrine. The Congress was reluctant to act on the request because the United States had never before entered into a formal assistance program with a foreign state during general peacetime conditions. However, Truman persisted, and the Greece-Turkey Aid Act of 1947 was enacted, thus

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<sup>10</sup>

O. Saruhan, "An Analysis of Foreign Military Sales Proceeds" (Monterey: Naval Postgraduate School, June 1989), 6.

<sup>11</sup>

The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 14.

introducing the instrument of assistance as a significant factor in U.S. postwar foreign policy.<sup>12</sup>

## 2. What is Security Assistance?

It is often said that security assistance is an "umbrella" term. According to the DoD Dictionary of Military and Associated Terms, Joint Pub. 1-02, published by the office of the Joint Chiefs of Staff, security assistance is defined as follows:

Groups of programs authorized by the Foreign Assistance Act (FAA) of 1961, as amended, and the Arms Export Control Act (AECA) of 1976, as amended, and other related statutes by which the United States provides defense articles, military training, and other defense related services, by grant, loan, credit, or cash sales in furtherance on national policies and objectives.<sup>13</sup>

In general the United States offers security assistance to strengthen the national security of friendly nations, and to support existing or prospective democratic institutions and market economies. Since Second World War, security assistance has become an institutionalized and continuing program used to advance U.S. interests in a global environment. It is not just a short-range program; rather, it is a continuing program, the components and magnitude of which change each year due to U.S. national interest and foreign policy objectives.

## C. EVOLUTION OF ARMS TRADE POLICIES: FROM REAGAN TO CLINTON

### 1. Background

The arms-export policy of the United States has been subject to major shifts in the last twenty years. The "Nixon Doctrine" signaled a decreased willingness on the part of the United States to commit U.S. troops to the defense of friendly and allied states. It proclaimed that countries directly threatened should themselves take primary responsibility for their defense. The United States would, however, assist them in this task by supplying required military hardware. The doctrine was based on the consideration that using indigenous

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<sup>12</sup> Ibid.

<sup>13</sup> U.S. Department of Defense, *Department of Defense Dictionary of Military and Associated Terms* (Joint Pub 1-02) (Washington, D.C., U.S. Government Printing Office, 1989), 327.

armed forces operating imported military equipment would be more cost-efficient than committing significant numbers of U.S. military personnel to the same task (not to mention the political problems of the United States Government caused by using U.S. military forces). Increased arms transfers would enable the United States to reduce military deployments without unduly endangering the positions of friends and allies.<sup>14</sup>

Another event that had a profound impact, not only on U.S. arms transfers but also on those of the other suppliers, was the oil price rise in 1974. This profoundly affected the balance of payments. The Nixon Doctrine and the oil price increase combined to exert strong upward pressures on the quantity of U.S. arms exports.<sup>15</sup>

At the same time, the U.S. Congress showed a strong desire to bring arms exports under closer control, first by an amendment (in 1974) to the Foreign Military Sales (FMS) Act, and later by the International Security Assistance and Arms Export Control Act of 1976. One year before the announcement of a new and more restrictive U.S. arms export policy by President Carter in 1977, Congress decided to downgrade or dissolve most U.S. Military Assistance Advisory Groups (MAAGs) stationed in the U.S. embassies in a large number of countries. Their tasks included representation (showing U.S. concern for the host country's security problems and giving advice), information (gathering information about the host country's needs, perceptions, attitudes), and management (assisting U.S. military assistance agencies in negotiations, helping commercial representatives of U.S. defense companies). Congress was concerned that military assistance personnel were generating demands for U.S. equipment either by assisting representatives of service agencies or commercial firms or by actively promoting the acquisition of U.S. defense equipment in their consultations with host military personnel, thus leading to a *fait accompli* for decision makers.<sup>16</sup>

In his campaign, President Carter promised to curb American arms exports, and within a few months after his inauguration he moved to fulfill at

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<sup>14</sup> Catrine Christian, *Arms Transfers and Dependence* (New York: Taylor & Francis, 1988), 78.

<sup>15</sup> Michael T. Klare, *American Arms Supermarket* (Austin: University of Texas Press, 1984), 40-42.

<sup>16</sup> Christian, *Arms Transfers and Dependence*, 79.

least part of his pledge. A Presidential Directive on Arms Transfer Policy (PD thirteen) was signed on 13 May 1977. It stated, *inter alia*, that:

The United States will henceforth view arms transfers as an exceptional foreign policy implement, to be used only in instances where it can be clearly demonstrated that the transfer contributes to promote our security and the security of our close friends.<sup>17</sup>

## 2. Reagan's Arms Transfer Policy

The Reagan policy was not formally unveiled until 21 May 1981, when Undersecretary of State for Security Assistance, Science and Technology, James L. Buckley addressed an Aerospace Industries Association meeting in Williamsburg, Virginia. Buckley affirmed that:

This administration believes that arms transfer, judiciously applied, can complement and supplement our own defense effort and serve as a vital and constructive instrument of our foreign policy.<sup>18</sup>

Contending that the Carter restrictions had undermined the defenses of nations whose support was vital to America's own security, he argued that Washington must lift those restraints in order to strengthen the common defense. We must, Buckley declared, substitute "a healthy sense of self-preservation" for the "theology" of the Carter period.<sup>19</sup>

This outlook was subsequently incorporated into a new Presidential Directive on conventional arms transfer policy, signed by the president on 8 July 1981. With this directive, the United States views the transfer of conventional arms and other defense articles and services as an essential element of its global defense posture and an indispensable component of its foreign policy.<sup>20</sup>

Reagan administration officials quickly rushed through a series of reforms to streamline the U.S. Government's arms supply system. First, they sought to provide quicker delivery of U.S. armaments to potential client states. Major FMS

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<sup>17</sup> Ibid.

<sup>18</sup>

Klare, *American Arms Supermarket*, 47-48.

<sup>19</sup> Ibid.

<sup>20</sup>

The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 32.

cases could take six years or more from the time an order was placed by a foreign government until the first weapon was actually delivered. Picking up on an idea that had been promoted by Texas Senator John Tower, the Pentagon set up a Special Defense Acquisition Fund (SDAF) to speed the delivery of arms to U.S. allies. The fund would purchase and stockpile "frequently ordered pieces of U.S. equipment," from machine guns to military trucks to helicopters, so that they could be shipped out as soon as a foreign government ordered them. The SDAF would also reduce the need for meeting FMS requirements through draw down or diversion of defense equipment from U.S. stock or new production. It would be supported to the tune of one billion dollars a year.<sup>21</sup>

In addition to shortening delivery times, the Reagan policy provided easy financing for foreign countries shopping for U.S. weapons. Grants and subsidized loans for the purchase of U.S. weapons were increased from \$3.2 billion to over \$6.4 billion.<sup>22</sup>

Third, the Reagan State Department rescinded Carter's so-called "leprosy" letter, urging embassy personnel instead to provide U.S. arms manufacturers with "all courtesies which would be provided to any other U.S. business."<sup>23</sup> This new arms sales approach, as an editorial in Aviation Week and Space Technology commented, could best be characterized as a free enterprise one.<sup>24</sup>

The objectives of this new directive on conventional arms transfer policy, which superseded Presidential Directive Thirteen of 13 March 1977, are to:

- Reinforce military capabilities to assist in the deterrence of aggression, especially from the USSR and its surrogates, and reduce the requirement for direct U.S. involvement in regional conflict.
- Reinforce the perception of friends and allies that the U.S., as a partner, is also a reliable supplier with a measurable and enduring stake in the security of the recipient country.

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<sup>21</sup> William D. Hartung, *And Weapons for All* (New York: Harper Collins Publishers, 1994), 93.

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

<sup>24</sup> Andrew J. Pierre, *The Global Politics of Arms Transfer* (Princeton: Princeton University Press, 1982), 64.

- Point out to potential enemies that the U.S. will not abandon its allies or friends or allow them to be militarily disadvantaged.
- Improve the American economy by assuring a more stable defense production base, and by enhancing the balance of payments. However, this objective should not be construed to mean that the approval of the transfer of arms will be based solely or even primarily on economic considerations and gain.
- Enhance the effectiveness of the U.S. military through improved possibilities of access to regional bases, ports, or facilities needed for the support of deployed forces during contingencies. Further, security assistance should be such as to improve the ability of the host nations to complement U.S. forces during deployments.
- Strengthen the stability of a region and the international security of the countries therein by fostering a sense of a recipient nation's security and thereby its willingness to settle disputes amicably. Through this objective, it is held that a government which feels secure is more likely to cope <sup>25</sup> with such challenges in a more progressive and enlightened manner.

### **3. The Bush Administration**

Although George Bush spent most of the campaign distancing himself from any connection with arms sales issues, his victory in the November election was viewed as good news by arms exporting firms. The industry's confidence in the newly elected president's commitment to its agenda was based as much on Bush's resume and record as it was on anything he had actually said during the campaign. As the first former director of the CIA to be elected president, Bush was a good bet to support the kind of covert arms sales that had been such a prominent feature of the Reagan foreign policy. Not only was he Ronald Reagan's loyal Vice President, Bush had also helped to preside over the peak years of the Nixon/Kissinger policy in the mid 1970s.<sup>26</sup>

The Bush administration faced various key events which had a significant impact on U.S. foreign policy and security assistance. These events included:

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<sup>25</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 23-24.

<sup>26</sup> Hartung, *And Weapons for All*, 134.

- The December 1989 collapse of the Iron Curtain and the subsequent emergence of democracy in the former Warsaw Pact countries.
- The August 1990 Iraqi invasion of Kuwait and the subsequent January/February 1991 Operation Desert Storm which liberated Kuwait.
- Middle East peace talks.
- The December 1991 economic and political dismemberment of the USSR.
- The far reaching worldwide economic recession of 1991 and 1992.<sup>27</sup>

The Iraqi invasion of Kuwait on 2 August 1990 ultimately demonstrated the value of the past security assistance programs during the conduct of war and also the responsiveness of the security assistance community during the war. It also boosted the overall level of FMS agreements to \$14.2 billion in FY 1990 and a record \$23.5 billion in FY 1991. The deployment, reception, and support of coalition forces in the Arabian Gulf was completed with comparative ease and benefited greatly from the over \$15 billion in FMS construction agreements completed prior to FY 1990. Security assistance also provided for equipment and procedural compatibilities among many of the coalition forces through past sales of U.S. equipment and technical and professional training in U.S. military classrooms. The requirement for international military students to know English during their U.S. training contributed significantly to improve communication during the war. The war generated over 350 new FMS cases valued at about \$12 billion, the majority of which were immediately filled and delivered. The Gulf War proved that U.S. military systems, though expensive, served as an exceptional marketing tool.<sup>28</sup>

The Bush administration's use of weapons as political tools did much more than prepare the way for U.S.-led military intervention in Kuwait. The trading of advanced U.S. weaponry for military cooperation in the Gulf War

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<sup>27</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 27.

<sup>28</sup> Ibid.

dramatically underscored the extent to which the initial Nixon/Kissinger concept of using arms sales in lieu of direct U.S. military intervention had come full circle to a policy of using arms sales to facilitate U.S. intervention.<sup>29</sup>

#### **4. The Clinton Administration: A New Direction**

Bill Clinton assumed the Presidency in 1993 with an already full plate: the humanitarian military mission in Somalia, the downward spiraling futility of Bosnia, a weakening U.S. economy and loss of predominance in the world's marketplace, the continued down-sizing of the U.S. military, and the continuing saga of the Middle East peace talks, to name only a few of the challenges.<sup>30</sup>

Despite these significant world problems, the Clinton administration's initial emphasis was on rebuilding the U.S. economy and on establishing a predominantly domestic agenda. In terms of the administration's foreign policy and national security interest, initially there was little departure from the previously stated goals of building democracy, promoting and minting peace, promoting economic growth and sustainable development, addressing global problems, and meeting urgent humanitarian needs. However, in order to accomplish these foreign policy goals, the Clinton administration laid as its bedrock the domestic strength of the U.S. through a number of internal and external measures which both directly and indirectly affected security assistance.<sup>31</sup>

In what is now referred to as the "Christopher Cable," President Clinton's Secretary of State, Warren Christopher, reiterated a previous policy encouraging overseas embassies to actively assist U.S. marketing efforts overseas. This was interpreted to also include U.S. civilian defense contractors in the pursuit of direct commercial sales (DCS) and foreign military sales (FMS) of defense articles, services, and training overseas.<sup>32</sup>

With the end of the cold war and the disintegration of the Soviet Union came the desire to attain peace dividends in the form of a reduced defense budget and the rapid downsizing of the U.S. military force structure. The savings

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<sup>29</sup> Hartung, *And Weapons for All*, 140.

<sup>30</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 28.

<sup>31</sup> Ibid.

<sup>32</sup> Ibid.

to be gained would help to fund certain domestic programs, such as reducing the budget deficit and funding a health care reform package. One significant security assistance program fell to defense cuts: the Special Defense Acquisition Fund. The SDAF was not recapitalized for FY 1994 with the intent that new items would not be added to the inventory, that money from sales would be returned to the U.S. Treasury, and that once an item was exhausted from inventory, it would not be reordered. It is anticipated that the SDAF could be totally defunct by FY 1998.<sup>33</sup>

However, FY 1993 ended on a bright note in terms of the positive impact of FMS cash sales on the U.S. economy. Due primarily to major defense equipment sales to countries in the Arabian Gulf, signed cases for FMS sales topped \$33 billion. These sales kept U.S. production lines open and defense industry employment up, especially for the great number of companies involved in the production of the F-15 and F-16 aircraft, and the M1A2 main battle tank.<sup>34</sup>

In February 1995, President Clinton signed the Conventional Arms Policy, which was classified. Its goals are to ensure that the U.S. military forces can continue to enjoy technical advantages over potential adversaries; to help allies and friends deter or defend themselves against aggression while promoting interoperability with U.S. forces when combined operations are required; to promote regional stability in areas critical to U.S. interest while preventing the proliferation of weapons of mass destruction and their missile delivery systems; to promote peaceful conflict resolution and arms control, human rights, democratization, and other U.S. foreign policy objectives; and to enhance the ability of the U.S. defense industrial base to meet U.S. defense requirements and maintain long-term military technological superiority at lower costs.<sup>35</sup>

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<sup>33</sup> Ibid.

<sup>34</sup> The Defense Institute of Security Assistance Management and Security Assistance Accounting Center, *FMS Customer Financial Management Handbook*, 8th Edition (Denver: U.S. Government Printing Office, 1994), 28-29.

<sup>35</sup> The White House, *Clinton Administration Conventional Arms Transfer Policy Fact Sheet* (Washington, D.C.: White House Press Secretary, 17 February 1985.)

## D. U.S. SECURITY ASSISTANCE PROGRAMS

According to the Office of the Joint Chief of Staff (JCS) document on security assistance, the primary objectives of security assistance are to assist countries in preserving their independence; promote regional security; help obtain access, overflight, transit, and forward basing rights; contribute to interoperability among military forces; insure access to critical raw materials; and provide a medium for increasing U.S. influence.<sup>36</sup>

For the United States, seven different programs can be regarded as part of security assistance if both the concessionary and nonconcessionary programs are included. In descending order of concessionality, from grant to essentially commercial programs:

- Military Assistance Program (MAP), which was formally merged with the Foreign Military Financing (FMF) program in FY 1990, provides defense articles and services, other than training, to eligible governments on a grant basis. The Congress appropriated \$3,918 million for FY 1994 for this program, or about 61 percent of the total budget for security assistance.
- International Military Education and Training (IMET) program provides training to foreign military and certain civilians on a grant basis, in the United States or abroad. It accounts for about 1 percent of total security assistance, and the JCS state: "This program has great potential for influencing foreign governments, whose representatives are trained by U.S. personnel and exposed to the United States, its people, culture, and policies. Frequently, students later assume senior leadership and management roles in their governments." This program has shown remarkable success over the years in building country-to-country relations.
- Economic Support Fund (ESF) is administered by the Agency for International Development (AID) and is considered part of security assistance. This program is often used to support a country's balance of payments and to offset payments due on FMS loans. For FY 1994 the Congress appropriated \$2,365 million for ESF, or about 37 percent of all security-related aid.

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<sup>36</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 37.

- Peacekeeping Operations (PKO) authorizes assistance to friendly countries and international organizations for the purpose of peacekeeping. Historically, funding under this statute has for the most part been limited to support of the UN force in Cyprus (UNFICYP) and the Multinational Force and Observation in the Sinai (MFO). With the changing international security environment, the number of situations requiring peacekeeping operations has risen in the early 1990s. Consequently, the Congress appropriated \$75 million for FY 1994, or about 1 percent amount of the total budget for security assistance.
- The Nonproliferation And Disarmament Fund is a new element in the security assistance budget. Following the collapse of the USSR, disarmament of the four nuclear former Soviet Union states (Russia, Ukraine, Belarus, and Kazakhstan) has moved to the forefront of the U.S. national security agenda. To help meet these needs, for FY 1994 the Congress appropriated \$10 million for this program, or about 1 percent of the total budget for security assistance.
- The Foreign Military Sales cash sales program allows qualified governments to purchase defense equipment, services, and training from the United States on a direct cash basis. At the end of 1994 more than 140 countries were authorized to use this program. FMS cash has no budget implications.
- Commercial sales of defense articles and services by private firms to foreign governments, with the approval of the Office of Munitions control in the State Department can also be considered part<sup>37</sup> of security assistance. Commercial sales have no budget implications.

## E. PRINCIPAL ELEMENTS OF U.S. POLICY IN THE ARABIAN GULF

### 1. Background

Early in 1980, after the Soviet invasion of Afghanistan raised the specter that the Soviets were seeking control over the world's oil lifeline, President

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Dr. J. Louis Samelson, "Fiscal Year 1994 Security Assistance Legislation," *The DISAM Journal*, 16, no. 2 (Winter 1993/94): 14-35.

Carter asserted that the U.S. would resist any attempt by any outside force to gain control of the Gulf region.<sup>38</sup>

While the Carter Doctrine was aimed principally at blocking the perceived threat of Soviet expansionism, it was the reality of Iran's and Iraq's search for hegemony and regional dominance which finally drew a U.S. military response - first through protection of Kuwaiti oil shipments during the Iran-Iraq War and, then, significantly, the coalition effort to liberate Kuwait and defeat Iraqi aggression. Today, the U.S. recognizes that the greatest potential danger to regional security lies in the threats which may come from either Iran or Iraq. These states pose different challenges. Their threats require different policies as have been detailed by National Security Advisor Lake in his recent Foreign Affairs article, "Backlash States."<sup>39</sup>

## 2. U.S. Strategy

The basic strategic principle for the United States in the Gulf, as defined in the Lake article, is to protect critical American interests in the security of its friends and in the free flow of oil at stable prices. In pursuing that balance, the U.S. concentrates on two sets of key objectives: limiting the ability of both Iran and Iraq to threaten regional stability and bolstering the defensive capabilities of U.S. friends in the region - individually, in tandem with their regional partners,<sup>40</sup> and in concert with the U.S. and other friendly outside powers.

The United States has the means to check immediate, overt threats. Iraq is constrained by international sanctions which were first affirmed by the UN. Iran is weakened by war and cannot directly challenge the U.S. Navy. No superpower is urging on either one or extending a protective umbrella.<sup>41</sup>

The situation is not static; Iraq remains a regional power with a long-term potential to threaten regional and U.S. interests, but it is subject to an extensive and highly rigorous set of international restrictions on its freedom of action. The U.S. stance toward Iraq is clear: It must fully comply with all relevant UN

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<sup>38</sup> Toni G. Verstandig, "Principal Elements of U.S. Policy in the Gulf," U.S. Department of State Dispatch 5, no. 14 (April 4, 1994), 197.

<sup>39</sup> Ibid.

<sup>40</sup> Ibid.

<sup>41</sup> Ibid.

Security Council resolutions and with the measures taken by the international coalition to enforce and monitor them.<sup>42</sup>

As for Iran, the United States has deep and serious concerns about its behavior in its quest for nuclear and other weapons of mass destruction and the means of their delivery; the continued involvement of the Iranian Government in terrorism and assassination worldwide; its support for violent opposition to the Arab-Israeli peace process; threats and subversive activities against its neighbors; and its dismal human rights record at home.<sup>43</sup>

The policy is not aimed at changing the Iranian Government but at inducing Iran to change its behavior in these areas. The U.S. seeks increased international economic pressure to persuade Iran that it cannot expect to enjoy normal state-to-state relations as long as it violates basic standards of international behavior. This means working with other countries to deny Iran access to technology and other means by which it can facilitate the pursuit of policies of destabilization, terrorism, and the acquisition of weapons of mass destruction.<sup>44</sup>

### **3. Security Cooperation**

One of the clear lessons of the past decade has been that containment of regional threats alone is not sufficient. The U.S. also needs to work with its friends in the region to develop a strong regional deterrent to those who would threaten its security or stability. The U.S. approach to bolster the security of its friends in the area is by:

- Encouraging the members of the Gulf Cooperation Council (GCC) to work more closely together on collective defense and security arrangements.
- Helping individual GCC countries meet their legitimate defense requirements, including arms sales that increase their capabilities to conduct coordinated operations in U.S. and other GCC forces.
- Working to strengthen its own ability to act quickly in the region by maintaining strong forces there, by prepositioning vital equipment and

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<sup>42</sup> Ibid.

<sup>43</sup> Amin Saikal, "Iran Won't be Left Out," *The Middle East*, no. 216 (October, 1992), 17.

<sup>44</sup> Ibid.

material, and by concluding defense access agreements with the GCC states.<sup>45</sup>

The United States' goal is to complement, not replace, the Gulf states' own collective security efforts. The U.S. does not intend to station troops permanently anywhere in the region. The objective is to increase regional stability, deter threats, and raise the threshold at which direct U.S. military action would be needed; that is, to reduce the likelihood that the U.S. and its allies would have to fight to repel aggression.<sup>46</sup>

The United States also recognizes that equipment alone cannot address the requirement for regional security. Small populations, absorption issues, and the need - in this era of lower oil prices - for the Gulf states to budget carefully for their military procurement, all lead to the conclusion that the appropriate response to Gulf security requirements is a diverse one.<sup>47</sup> For that reason, the U.S. particularly welcomed the decision of the GCC summit meeting in Riyadh in 1993 to endorse a number of recommendations of the GCC defense ministers for enhanced GCC cooperation and coordination. These include, for example, joint efforts in the area of air defense command and control.<sup>48</sup> The United States believes in and has undertaken with its friends in the area, continuing measures aimed at improved GCC cooperation that form an important component of enhanced deterrence for the region.<sup>49</sup>

#### F. THE PLACE OF THE U.S. IN THE ARMS MARKET

The makeup of the arms market itself has changed. Once dominated by the U.S. and USSR and a few lesser suppliers in Europe, it is now overwhelmingly dominated by one nation: the United States.<sup>50</sup> A 29 July 1994 Congressional Research Service (CRS) report for Congress, "Conventional Arms Transfers to the Third World, 1986-1993," shows that for the fourth straight year

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<sup>45</sup> Verstandig, "Principal Elements of U.S. Policy in the Gulf," 198.

<sup>46</sup> Ibid.

<sup>47</sup> Ibid.

<sup>48</sup> Saikal, "Iran Won't be Left Out," 17.

<sup>49</sup> Verstandig, "Principal Elements of U.S. Policy in the Gulf," 198.

<sup>50</sup> Mary H. Cooper, "Arms Sales: Should the U.S. Cuts Its Weapons Exports?" *CQ Researcher*, 4, no. 46 (9 December 1994), 1083.

the United States continues to wrest from Russian and European suppliers a greater share of a shrinking global arms market, with U.S. arms agreements in 1993 accounting for nearly 75 percent of all Third World weapon deals, up from just 21 percent five years ago.<sup>51</sup>

An industry spokesman pointed out that the main reason for U.S. dominance of the arms market is the decline of its competitors. "U.S. exports of military equipment have been relatively constant for at least the last decade," says Joel L. Johnson, Vice President for International Affairs of the Aerospace Industries Association of America. What happened is the world transfers of arms dropped from about \$61.5 billion in 1988 down to around \$22.4 billion in 1993,<sup>52</sup> giving the United States a bigger percentage of the total.

For nations that can't afford brand-new weaponry, the Pentagon is literally giving away older but still lethal pieces of its cold war arsenal. Pentagon officials say such gifts help nurture closer ties between U.S. and foreign militaries and save millions of dollars that the Defense Department would otherwise have to pay to scrap arms.<sup>53</sup>

U.S. arms producers have stepped up their export efforts as a way to survive Pentagon budget cuts. Defense Department orders for new weapons have fallen by half since 1988, reaching a new low of \$44 billion in 1994.<sup>54</sup>

U.S. arms exports, meanwhile, have remained fairly steady, averaging around \$12 billion a year. Critics of arms sales say that at a time of shrinking markets the United States is setting a bad example to the rest of the world by hawking its lethal weapons. Overseas industry representatives respond that conventional arms are legitimate export products that serve the interests of both the United States and their customers, who are carefully screened through the federal licensing process.<sup>55</sup>

After reviewing the U.S. security assistance and tracking the changes in its policies under the different administrations, a logical follow-on is to understand

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<sup>51</sup> Barbara Opall, "U.S. Tightens Grip on Third World Arms Market," *Defense News*, 9, no. 31 (8-14 August 1994), 3.

<sup>52</sup> Cooper, "Arms Sales: Should the U.S. Cuts Its Weapons Exports?" 1083.

<sup>53</sup> Mark Thompson, "Going Up, Up in Arms," *Time*, 144, no. 24 (12 December 1994): 46.

<sup>54</sup> Ibid.

<sup>55</sup> Cooper, "Arms Sales: Should the U.S. Cuts Its Weapons Exports?" 1083.

how the U.S. arms sales business are carried out. The next chapter will focus on the process of the primary element of the U.S. security assistance, the foreign military sales. In addition, the direct commercial sales, the FMS competitor, will be explored.

#### **G. SUMMARY**

The focus of this chapter has been on the policies of U.S. security assistance which has been viewed differently by different administrations. Security assistance has been and still remains an important instrument of foreign policy. Arms transfers and related services have reached enormous dimensions, involving most of the world's nations, either as a seller/provider or buyer/recipient.

The period from 1945 until 1991 saw the emergence of the two superpowers and their competition for larger spheres of influence. The Truman Doctrine of aid to Greece and Turkey in 1947, was established in an effort to stem the flow of communism, and set the pattern for security assistance that developed for four decades.

The policy of containment began under Truman and had an impact on U.S.-USSR relations during every administration since Truman's. Containment also left a heavy imprint on the U.S. security assistance policy. It became a factor in the determination of who would receive aid, what type of assistance and how much would be furnished, and whether it would be provided through grant or sale.

For the United States, seven different programs can be regarded as part of security assistance if both the concessionary and nonconcessionary programs are included. Growing economic difficulties and recession-induced increases in unemployment and company failures have produced a political environment in the U.S. in which there is no support for foreign assistance programs of any kind. In this environment, the Administration will be hard pressed to induce Congressional support for the funding of the U.S. security assistance programs. However, the marketing efforts to support cash sales of U.S. Defense articles overseas will intensify.

The United States, through the development of strong ties with the GCC states, seeks to ensure that those states enjoy security and stability so that the

international community preserves its access to vital natural resources of the region.

According to the "Conventional Arms Transfer to the Third World, 1986-1993" CRS report for the Congress, the United States is overwhelmingly dominating the arms export market. U.S. arms agreements in 1993 had accounted for 75 percent of all Third World weapon deals, up from 21 percent in 1988.



### III. U.S. FOREIGN MILITARY SALES

#### A. INTRODUCTION

##### 1. Background

If a foreign country chooses to buy military equipment or services through the U.S. Foreign Military Sales (FMS) program, an elaborate system of U.S. Government involvement is automatically set in motion. The government is involved in any military sale, including direct commercial sales (DCS). Any sale must have an export license from the Office of Munitions Control, and for any sale over certain threshold levels the administration must make notification to the U.S. Congress in advance. But since an FMS sale involves the U.S. Government as the contracting agent, the process is even more complex.<sup>56</sup>

Military sales can take years to consummate. Even for relatively simple and inexpensive weapons systems, countries can spend months selecting the item, determining the amount of follow-on assistance to purchase, arranging financing, obtaining U.S. Government approval, and awaiting production and delivery.

This chapter attempts to explore the two methods through which an eligible customer can purchase defense articles, the FMS and DCS. The FMS will be described starting from the pre-planning phase to the case closure phase. Then, the type of support the customer can expect from the U.S. once the defense article is delivered will be addressed. Finally, the financial aspects that govern the FMS will be explained. Legislative and administrative publications will be the basis for the presented information.

With respect to the DCS, the FMS competitor, the description will be limited. The reason for this limitation is because DCS is not characterized by a specific execution procedure. DCS is based on the agreement between the buyer and the seller on the way to conduct their business, which can be as simple as opening a Letter of Credit or as complicated as using a legal contract.

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<sup>56</sup> Michael Collins Dunn, "The Life History of a Foreign Military Sale," *Defense & Foreign Affairs*, 14, no. 4 (April, 1986), 7.

## **2. Definition**

FMS, the largest program element of the overall security assistance program, stands for foreign military sales, which are government-to-government sales of defense articles and services. Through the FMS program, which is conducted under the authority of the Arms Export Control Act (AECA) of 1976, the U.S. DoD sells military equipment and services to foreign governments and international organizations. The DoD may order and buy the equipment from private firms, manufacture the equipment in government facilities, draw it from available stocks, or in certain circumstances draw it from U.S. military units.<sup>57</sup>

Defense articles are commodities such as weapons systems, munitions, materials, supplies, or goods used for the purpose of providing military assistance, not including merchant vessels.<sup>58</sup>

Defense Services include any service, test, inspection, repair, training, publication, technical or other assistance or defense information used for the purposes of making military sales. Training includes either formal or informal instruction of foreign students in the U.S. or abroad by officers or employees of the U.S., contract technicians, or contractors. It also includes correspondence courses, technical, educational, or informational publications and media of all types, training aids, orientation, training exercises, and military advice to foreign military units and forces.<sup>59</sup>

FMS are administered by the Secretary of Defense and shall only be approved when they are consistent with the foreign policy interests of the United States.<sup>60</sup>

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<sup>57</sup> Congressional Research Services, *U.S. Military Sales and Assistance Programs: Laws, Regulations and Procedures* (Washington, D.C.: Government Printing Office, February 1985), 1-2.

<sup>58</sup> U.S. House of Representatives and Senate, *The Foreign Assistance Act of 1961, Public Law 87-195* (Washington, D.C.: Government Printing Office, September 1961), 461.

<sup>59</sup> U.S. House of Representatives and Senate, *Legislation on Foreign relations through 1976, Public Law 94-329* (Washington, D.C.: Government Printing Office, 1986), 18.

<sup>60</sup> The Defense Institute of Security Assistance Management, Security Assistance Accounting Center, *FMS Customer Financial Management Handbook*, 1-4.

## B. FMS PROCESS

### 1. Forward Planning

Even before specific requests are made by a purchasing country, the U.S. may be involved in forward planning, in order to help determine the needs of the buying country and the budget and procurement issues relating to the U.S. There are three separate "planning tracks," described as the "country track," "budget track," and "procurement track." The country track would involve the regional departments of the State and Defense Departments, the Operation Branch of Defense Security Assistance Agency (DSAA), the Commanders of the Unified Commands of the Armed Forces responsible for the area involved, and the Security Assistance Office (SAO) in the affected country. The "budget track" involves DSAA's Plans Branch, the Office of Management and Budget, and at the State Department, the Under Secretary of State for Security Assistance, Science and Technology (State/T) and Political-Military Affairs (State/PM). The "procurement track" includes State/PM, the individual services, DSAA Operations and Plans, the Joint Chiefs of Staff, and the National Disclosure Policy Committee.<sup>61</sup>

The actual planning is carried out by two types of groups: the "Country Team" or Security Assistance Office for the country, and the "Washington Team" which may be a consultative or survey team dispatched for a particular reason, or associated with a Joint Military Commission. All of the various agencies and players interact with each other in the planning.<sup>62</sup>

A key planning instrument is the Annual Integrated Assessment for Security Assistance (AIASA), prepared by the Country Team. Other planning documents include Consolidated Data Reports (CDRs), containing the AIASA information in abbreviated form for use in the Congressional Presentation Document (CPD), produced as part of the budget process each year and outlining in general detail what will be required for a given country in the form of security assistance. For selected countries, a Security Assistance Defense Analysis Paper may be prepared annually.<sup>63</sup>

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<sup>61</sup> Dunn, "The Life History of a Foreign Military Sale," 7.

<sup>62</sup> Ibid.

<sup>63</sup> Ibid.

## **2. Eligibility**

Any country desiring to buy or lease defense articles or services—whether FMS or commercial sales—must first meet the eligibility requirements detailed under the U.S. Arms Export Control Act (AECA).

The ACEA (Section Three) states that no defense articles or services may be sold or leased by the U.S. Government to any country or international organization unless:

- The President finds that the furnishing of defense articles and defense services to such country or international organization will strengthen the security of the U.S. and promote world peace.
- The country or organization has agreed not to transfer the item without the President's consent.
- The country or organization has agreed to maintain the security of the item.
- The country or organization is otherwise eligible, i.e., no other restrictions make it ineligible.

Each year, in the Congressional Presentation Document for security assistance programs, the President submits a list of all countries that have been found to be eligible for arms sales or leases under criterion above.<sup>64</sup>

## **3. Initiating a Request**

Assuming that a country is eligible, the approved channels for submitting a Letter of Request (LOR) vary according to whether the foreign country is interested in Significant Military Equipment (SME), defined as:

Articles for which special export controls are warranted because of their capacity for substantial military utility or capability.

or Major Defense Equipment (MDE), which is defined as:

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<sup>64</sup> Congressional Research Services, *U.S. Military Sales and Assistance Programs: Laws, Regulations and Procedures*, 13.

A SME and for which the U.S. Government has incurred either a nonrecurring research and development cost of more than \$50 million or which has a total production cost of over \$200 million.

Requests for SMEs or MDEs must be sent to State/PM – the division which includes the Office of Munitions Control – and also to the DSAA, the Pentagon's main implementation body for all foreign security assistance. For all other FMS, non-SME, the requests are transmitted directly to the relevant DoD branch or service.<sup>65</sup>

In the case of Bahrain, all the requests are transmitted to the Office of Military Cooperation (OMC) at the U.S. Embassy, which then transmits them to the appropriate channels in the United States.

#### **4. Type of Request**

After the initial request is received, there are several possible approaches. The buyer may request either preliminary information data known as Planning and Review (P&R) data, which offers a rough estimate and information about the price and the availability, or more specific and detailed Price and Availability (P&A) data, which offers price estimates of the cost involved and the speed of delivery available, or the buyer may directly request the preparation of a Letter of Offer and Acceptance (LOA).<sup>66</sup>

#### **5. Letter of Offer and Acceptance**

The usual document used for the actual sale transaction is DoD Form 1513 (DD Form 1513), which lists the items or services, estimated costs, terms and conditions of the sale.

FMS cases can be divided into Defined Order Cases, Blanket Order Cases, and Cooperative Logistics Supply Support Arrangements (CLSSAs). A Defined Order case is one in which the items, services or training to be provided are stated explicitly on the LOA. The Blanket Order FMS cases is an agreement that specifies that the foreign country may acquire a specific category of material or

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<sup>65</sup> Dunn, "The Life History of a Foreign Military Sale," 9.

<sup>66</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 148.

services without a specific listing.<sup>67</sup> The CLSSAs provide logistics support at the depot level on a continuous basis.

The LOA is written by the implementing service. In the Army, this is usually the Material Readiness Command; in the Navy, the Security Assistance Division of the Office of the CNO, and in the Air Force, the Air Staff Directorate of International Programs.<sup>68</sup>

## 6. Congressional Notification

Congress has required a wide range of reporting on arms sales including annual and periodic reports on overall transfers, and prior notification of major sales of equipment or services.<sup>69</sup>

In 1976, under the International Security Assistance and Arms Export Control Act of that year, Congress was given the power to block major sales of equipment or services provided it passed a concurrent resolution of disapproval within thirty days of notification of sale. The thresholds above which Congress must be given prior notification of sale are:

- Any LOA with the value of \$50 million or more.
- Any design and construction services for \$20 million or more.
- Any major defense equipment for \$14 million or more.

The President may, under the AECA, certify that an emergency exists and avoid the thirty-day congressional approval process, but this is rarely done.<sup>70</sup>

## 7. Acceptance

If the foreign buyer finds the offer acceptable, then the purchaser must complete and sign the DD 1513 before the expiration date which is sixty days from the date the offer issued. This is the usual procedure, because of the degree of coordination put into the case beforehand. There have been instances where an LOA was issued but financial or other terms were subsequently rejected.<sup>71</sup>

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<sup>67</sup> Ibid.

<sup>68</sup> Dunn, "The Life History of a Foreign Military Sale," 11.

<sup>69</sup> Michael Collins Dunn, "Arms and the Congress," *Defense & Foreign Affairs*, 14, no. 4 (April, 1986): 14.

<sup>70</sup> Ibid. 14.

<sup>71</sup> Dunn, "The Life History of a Foreign Military Sale," 12.

Any required initial deposit — this will have been specified in the DD 1513 — must also be provided before the expiration date in U.S. dollars. If the purchaser wishes to extend the expiration dates, a full review is required by the preparing agency to insure that all price and other data remains valid.<sup>72</sup>

#### 8. Implementation

After receiving the initial deposit, Defense Finance and Accounting Service (DFAS) releases the obligational authority (O/A) to the cognizant DoD component. The O/A is evidence that proper acceptance, including cash deposit, has been received and the case may be implemented. The cognizant component may then prepare "case directives" that direct and coordinate the case implementation process.<sup>73</sup>

The means by which the U.S. Government fulfills the requirements of the FMS program depend on the nature of the material and services being furnished. A typical program involves the procurement of items from government stocks. The complete system is composed of both contractor-furnished and government-furnished equipment, subsystems, and material. FMS requirements may be consolidated with U.S. Government requirements or placed on a separate contract, whichever is more expedient and cost effective.<sup>74</sup>

The actual procurement and supply action for the FMS program are carried out by U.S. Government procurement and logistics activities in the same manner, and by using largely the same internal management organizations as for U.S. Government programs. The implementing agencies may establish separate offices or positions within their organizations to provide overall surveillance of the FMS program, and they serve as an interface with other organizations involved in managing the program.<sup>75</sup>

#### 9. Closure

A FMS case is considered closed when DFAS issues a final statement of account (DD 645) to the customer. DFAS can issue a final bill only after the implementing agency (IA) has submitted to DFAS a case closure certificate. The

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<sup>72</sup> Ibid.

<sup>73</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 161.

<sup>74</sup> Ibid.

<sup>75</sup> Ibid. 62.

IA and DFAS will close a case usually after a lengthy process called case reconciliation. Case reconciliation should include the customer as a major participant in order to ensure that all supply and financial transaction have been resolved with DFAS as well as the IA. The DoD case manager is the primary individual responsible for case closure.<sup>76</sup>

Current policy states that all cases should be reported closed to DFAS within twenty-four months of becoming supply complete, unless there are significant case procurement actions pending final liquidation or final disbursement.<sup>77</sup>

The difference between the delivered value of the item and the final contract price, normally a small percentage of the final contract cost, will not be finalized until all deliverables on a long running contract are completed.<sup>78</sup> Therefore, a customer may end up with all material delivered against a major procurement case but case closure will be many years away pending relatively small final disbursements.

### C. INITIAL AND FOLLOW-ON SUPPORT

The DoD logistics system is designed to provide support throughout the life cycle of weapon system to ensure maximum capability. The goal is to provide the greatest support for the least cost. Decisions regarding which repair parts to stock in order to maintain the highest operational readiness start with the initial planning phases of a new weapon system and continue during its operational life. For the purpose of foreign military sales, the life cycle management of weapons system can be divided into two phases: initial and follow-on support.<sup>79</sup>

#### 1. Initial Support

Initial support is provided to the purchaser before or at the same time the system or major item is delivered in order to ensure the successful introduction and operation of a new system into the customer's inventory.

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<sup>76</sup> Ibid. 165

<sup>77</sup> Ibid.

<sup>78</sup> Ibid.

<sup>79</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 343.

The level of initial support is based on a number of factors. Some of those are the average operation per hour per month, number of repair locations, and the maintenance concept. A driving force in determining the amount of initial support to be provided for a particular weapon system for a customer country is often the amount of money that the country is willing to invest. In general, initial support is provided for a twelve to twenty-four month period.<sup>80</sup>

## 2. Follow-On Support

Follow-on support is normally defined as that support provided on a day-to-day basis subsequent to the initial support period and prior to removal of the end item from the inventory. Follow-on support negotiations are generally started during the weapon system acquisition phase to accommodate administrative and production lead time.<sup>81</sup>

One option available for follow-on support is through Cooperative Logistics Supply Support Arrangements (CLSSAs). The CLSSA is considered by the DoD as the most effective means to replenish the in-country stock of spares and repair parts which were initially furnished with end items of equipment. Also the DoD considers it as the most responsive means through which authorized repair parts may be obtained.<sup>82</sup>

The CLSSA arrangement requires the country to make a financial investment in the DoD logistics system to establish an equity representative of its anticipated support requirements. The country, in conjunction with the recommendation of the system program managers, identifies by stock number and quantity those commonly used items which the country anticipates will be required over a given period to support a weapon system/major end item. This list is known as the equity list, because of the customer investment in the U.S. supply system. The investment permits the U.S. service to augment its stocks in anticipation of the country's actual demands. The CLSSA is used only for replenishment of consumables and for replacement of repairable components

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<sup>80</sup> Ibid.

<sup>81</sup> Ibid.

<sup>82</sup> Ibid. 350.

which were either not provided with the initial support package or which are beyond repair.<sup>83</sup>

The material purchased with the country's cash investment is commingled with U.S. DoD stocks and is not physically separated or otherwise identified in the service's inventory records. In return for this investment, the country is entitled to receive support from DoD stocks equal to that provided U.S. forces assigned the same Force Activity Designator (FAD).<sup>84</sup>

Once an investment has been used to augment DoD stocks and a country desires to actually withdraw material for use in country, the country's payment for those items which it requisitions will provide funds which allow U.S. Government to restore stock levels to support that particular country in the future under the arrangement.<sup>85</sup>

#### D. PRICING AND FUNDS MANAGEMENT

##### 1. FMS Pricing

The methodology employed in developing an FMS price depends upon whether that price is to be placed on an LOA as a cost estimate or whether it is the price which is later reported in the billing system as the result of the constructive delivery of an article or service. The prices entered on an LOA are estimates of the expected costs of articles and services to be delivered some time in the future.<sup>86</sup>

The objective of these estimates, developed using cost analysis techniques, is to provide the FMS purchaser with an accurate prediction of a future cost. Prices entered into the billing system represent the actual cost of articles and services which have been delivered to FMS purchasers. These actual prices are based on the cost of the article at the time it is dropped from inventory, or the wage or salary rate at the time the service is performed. In the case of articles coming from new procurement, the costs reported will be those incurred for progress payments made to defense contractors on behalf of the purchaser.<sup>87</sup>

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<sup>83</sup> Ibid. 351.

<sup>84</sup> Ibid. 352.

<sup>85</sup> Ibid.

<sup>86</sup> Ibid. 271.

<sup>87</sup> Ibid.

However, the exact final cost of major procurements may not be determined until the total contracts for all systems obtained under such procurements are completed. Consequently, estimates will be entered into the billing system to be replaced by the actual costs when they are determined.

The AECA, as amended, requires the U.S. Government to determine and recover all costs relating to FMS except where authority exists for cost reduction or waiver. The LOA terms and conditions reflect the fact that the U.S. Government, in procuring and furnishing the items specified in the body of the LOA,<sup>88</sup> does so on a nonprofit basis.

According to Sections twenty-one and twenty-two of the AECA, FMS agreements must recover costs as follows:

- In the case of defense articles not intended to be replaced at the time a sales agreement is entered into: not less than the actual value thereof.
- In the case of defense articles to be replaced: the estimated cost of the replacement of such article, including the contract or production costs less any depreciation in the value of such article.
- In the case of the sale of a defense service: the full cost to U.S. Government of furnishing such service.
- In the case of new procurement: the full amount of such contract (which will insure the U.S. Government against any loss on the contract); plus,
- Appropriate charges for:
  - Administration services, calculated on an average percentage basis.
  - A proportionate amount of any nonrecurring costs of research, development and production of major defense equipment.

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<sup>88</sup> Ibid. 273.

- Ordinary inventory losses associated with the sale from stock of defense articles that are being stored at the expense of the purchaser.<sup>89</sup>

## 2. FMS Funds Management

The administration of the FMS program involves the management of substantial amounts of funds. The fact that FMS operates under a legislatively mandated "no-loss" concept and an administratively mandated "no-gain" policy enforces the requirement for effective financial planning and accountability, and has caused the creation of FMS-peculiar data collecting and reporting systems.

The conceptual big picture for the funds flow process starts with the United States Government placing financial requirements on the Foreign Purchaser. These requirements are generally of two forms: (1) the initial deposit requirement, if applicable, which is reflected in the LOA and (2) quarterly payment requirements which are contained in the estimated payment schedule of the LOA and subsequently incorporated in the DFAS issued quarterly FMS billing statement, DD Form 645. The DD Form 645 reflects performance against FMS orders as reported by the implementing agencies based on the monthly delivery transactions.<sup>90</sup>

The purchaser must respond by providing the funds requested. The purchaser normally has two sources of financing: cash and U.S. Government credit (i.e., grants or loans). From the perspective of the U.S. Government, cash financing by the purchaser means the absence of U.S. Government grants or loans.<sup>91</sup>

In making cash payments, which is always in the form of United States dollars, a purchaser may pay DFAS directly by wire transfer or by check. The payments are received into the FMS Trust Fund Account for which DFAS has accounting responsibility.<sup>92</sup>

The DoD components having implementation responsibility for a given FMS case or cases will request obligation authority (OA) and expenditure

<sup>89</sup> Ibid.

<sup>90</sup> Ibid. 286.

<sup>91</sup> Ibid.

<sup>92</sup> Ibid.

authority (EA) from DFAS at the appropriate times. OA and EA may be requested and accounted for by one of two methods: the direct citation of the FMS trust fund method or the reimbursable method.<sup>93</sup>

At the time of case closure, there may be funds left over on an FMS case (i.e., funds which are in excess of the final case value). Also, purchaser funds are occasionally received at DFAS prior to receipt of an accepted LOA, or funds are received at DFAS that are not identified to a particular case. These excess funds and unidentified funds may be retained in a holding account pending the purchaser's instructions. The purchaser's funds may be retained in the holding account or returned at the purchaser's request, provided there are no collection delinquencies for other FMS cases.

The holding account is also used by DFAS for other purposes. For example, crossleveling transactions, Interest Bearing Account Drawdowns, MAP Merger Funds, Buybacks, and Credit Funds may be processed through the holding account, as applicable.

#### E. DIRECT COMMERCIAL SALES

Direct Commercial Sales (DCS) are another element of the security assistance program. A direct commercial sales licensed under the AECA is a sale made by U.S. industry directly to a foreign buyer. Unlike the procedure employed for FMS, direct commercial sales transactions are not administered by the DoD and do not involve a government-to-government agreement. Rather, the U.S. Governmental "control" is accomplished through licensing by the Office of Defense Trade Control in the Department of State. Commercially licensed sales are authorized under Section Thirty-eight of the AECA.<sup>94</sup>

Both the contractor-to-government DCS and the government-to-government FMS have been designed to achieve a common result--the enhancement of mutual security objectives through the provision of U.S. military items and services to allied and friendly foreign governments.<sup>95</sup>

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<sup>93</sup> Ibid. 287.

<sup>94</sup> Ibid. 43.

<sup>95</sup> Ibid. 594.

As for FMS, under DCS congressional certification is required before the issuance of any export license for MDE in excess of \$14 million or other defense articles/services in excess of \$50 million.<sup>96</sup>

Eligible governments may request contract administration and contract audit functions normally provided by DoD, for DCS purchases. This service is normally authorized and reimbursed through a blanket order LOA between the foreign purchaser and the U.S. Government.<sup>97</sup>

In the past, eligible countries were able to use foreign military financing (FMF) funds to pay for direct commercial contract with U.S. suppliers. But, since 1993, this has not been case due to some auditing problems faced by the DoD.<sup>98</sup>

Nations buying military equipment from the U.S. have shown an increasing preference for working with the FMS system rather than buying through government approved commercial channels for several factors.<sup>99</sup> The next chapter, Bahrain Defense Force and the FMS, shall address those factors from the perspective of the buyer.

## F. SUMMARY

The process of FMS management follows a logical sequence of steps over a prescribed timeline. Depending on the nature of the foreign government's requirements, a purchaser may request either Price and Availability (P&A) data or a Letter of Offer and Acceptance (LOA). P&A data is usually needed by the foreign government for rough order of magnitude (ROM) estimates on prices and delivery timeframes. The LOA, also known as an "FMS Case," is a contractual document that provides the purchasing country with all the information required to purchase not only the material or service, but also all the ancillary support needed for full functional operation. The LOA, upon acceptance, is returned to the cognizant military department and to DFAS with

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<sup>96</sup> Ibid.

<sup>97</sup> Ibid. 267.

<sup>98</sup> Sharon Denny, "Pentagon To Limit Use of FMF Funds," *Defense News*, 8, no. 23 (14-20 June, 1993): 2.

<sup>99</sup> John Tirpak, "Defense Importers Favor FMS Over Commercial," *Aviation Week & Space Technology*, 141, no. 1 (July, 1994): 69.

the required initial payment. DFAS then provides obligation authority to the cognizant military department.

A case is considered delivered or supply complete when all articles and services contracted for on the LOA have been delivered or performed by the implementing agency. Case closure is then undertaken. A case is considered closed when, in addition to final delivery or performance, all financial transactions, including collections, have been completed and the customer has received a final statement of account for the case.

Although available through other sources, in many instances the purchasing country prefers to use the U.S. logistics support system for its own forces.<sup>100</sup> One option available for follow-on support is through Cooperative Logistics Supply Support Arrangements (CLSSAs). The CLSSA is considered by the DoD as the most effective means to replenish the in-country stock of spares and repair parts which were initially furnished with end items of equipment. The DoD considers it as the most responsive means through which authorized repair parts may be obtained.

The LOA is the primary document used to transmit FMS prices to the purchasing country. Elements used in calculating FMS prices may include, but are not limited to, the cost of the item; nonrecurring RDT&E and production costs; contract administration costs; accessorial charges; and administrative charges.

In the case of new procurement for items which are usually delivered directly, pricing is established to recover full contract cost plus applicable surcharges.

For a case to be implemented, IAs must request obligational authority, and the OA in turn must be passed for DFAS to the applicable IA. OA allows items to be released from DoD inventories and contracts to be awarded on the purchaser's behalf. Expenditure authority must be requested by the IA from DFAS in order to pay contractor invoices.

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<sup>100</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 360.

Nations buying military equipment from the U.S. have shown an increasing preference for working with the FMS system rather than buying through government approved commercial channels for several reasons.

## **IV. BAHRAIN DEFENSE FORCE AND THE FMS**

### **A. INTRODUCTION**

The management of FMS programs and cases, like the concept of "management" itself, is often regarded by some as more of an art than a science.<sup>101</sup> In managing the FMS, Bahrain Defense Force (BDF) follows the same universal management principles as does the United States.

It is not an understatement to say that FMS has a language of its own, and that is why in BDF, the execution of FMS is somewhat different than other programs.

Focusing on FMS execution in BDF, this chapter shall start with a background of the State of Bahrain, its defense forces, and their role in the Gulf War. Second, the evolution of FMS in the BDF will be explained. Third, the BDF's in-house mechanism used to deal with the FMS will be explored. Finally, from the point of view of the BDF, the advantages of both the FMS and DCS will be explained.

### **B. BACKGROUND**

#### **1. The State of Bahrain**

Bahrain's identity in the region is special. It was the first Gulf state to discover oil and to have an-oil based economy in the 1930s. It was the first state in the region to use demographic studies in economic planning and to provide extensive statistical information and make it available to private business. It was also the first Gulf regional base for scheduled airline services and has developed over the last three decades as the center for regional finance, duty-free port legislation and industrial areas. It leads the region in international trade, patents and intellectual property rights legislation, which is based on western patents laws. It was the first country in the Middle East to install a satellite communication system. Its position as a center for some of the world's most advanced equipment is unrivaled in the area.<sup>102</sup>

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<sup>101</sup> Ibid. 197.

<sup>102</sup> Mushtak Parker, "Bahrain Diversifies Into the 1990s," *The Middle East*, no. 223 (May, 1993): 21.

Bahrain aims to diversify its sources of national revenue through industrial expansion and diversification. Thus, the further development of Bahrain's industrial and tourist sectors have become top priorities in the face of dwindling oil reserves. Bahrain also wishes to diversify its export markets.<sup>103</sup> Current government policies also include job creation, economic incentives in key areas, privatization of government firms and cost cutting measures.

Bahrain's strategic location in the middle of the Arabian Gulf, and its strong links and relation with its western allies that have been built over the years, has become a sensitive issue for the government. The government has been criticized for the relationship, making the government pay more attention to external critics than it would if left in peace to form alliances and relationships with Bahrain's friends.

To protect the sovereignty of the State of Bahrain, and to play its role in the stability in the region, the ruler of Bahrain issued a decree that announced the formation of Bahrain Defense Force in 1968.

## **2. Bahrain Defense Force Evolution**

BDF was formed three years before Bahrain received its independence from the United Kingdom (U.K.). Since that time, the Government of Bahrain has continuously supported the development of the BDF. BDF's development plan started by sending a number of officers to Sandhurst Military College in U.K. to be trained in the art of leading the forces to defend the country.

During the seventies, BDF capabilities were limited. BDF's equipment consisted of a few French wheeled armored vehicles, British 105 mm guns, four BO-105 helicopters used mainly for patrol missions, and a small number of naval boats equipped with short range small caliber guns that provided limited defensive capabilities.

During the eighties, the BDF grew. Units of the BDF have received M60A3 tanks, 155 mm guns, M113 armored vehicles, Stinger missile systems, missile boats equipped with anti-ship missiles and air defense capability, AB-212 helicopters, and F-5 fighters.

In 1994, the BDF celebrated its Silver Jubilee. On this occasion all BDF systems and equipment were displayed in a convoy that extended miles. The

<sup>103</sup>

Mushtak Parker, "Reliance & Diversification," *The Middle East*, no. 223 (May, 1993): 24.

Multiple Launcher Rocket System (MLRS) and the F-16 fighters, Black Hawk and Cobra helicopters, SINCGARS radios, and Naval helicopters equipped with over the horizon targeting were added to BDF's capabilities.

Furnishing the units with the different systems did not take place without building the required support facilities. In 1990 a first class air base was opened in the southern part of the island. This base, which was designed by the U. S. Army Corps of Engineers, played an essential role during the Gulf War. It hosted 250 U.S. and allied combat aircraft that flew over 11,000 sorties against Iraq.<sup>104</sup> This war demonstrates that the size of the country has nothing to do with its international role. The 320 square miles island, Bahrain, played a tremendous role which comes to the minds of military leaders when they remember the liberation of Kuwait and the Gulf War.

### 3. BDF and the Gulf Cooperation Council

On 10 March, 1981, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, joined together to create the Gulf Cooperation Council (GCC) to coordinate military, diplomatic, and other matters in the region. Under a 1984 agreement within the GCC, Bahrain and Oman were to receive \$ 1.8 billion in aid from richer members of the six-nation group, to build up their armed forces.<sup>105</sup> It is unfortunate that some of the states did not keep this commitment.

Saudi Arabia was the only country that kept its commitment to this program. After leading Bahrain to sign agreements with the United States and European suppliers, the others then backed out of the commitment because of their own financial problems in the wake of the Gulf War and with the drop in oil prices. As a result, Bahrain has been forced to go into debt to pay its bills and honor its obligations for past purchases, such as its fleet of 12 F-16 fighter aircraft.<sup>106</sup>

The failure of other members of the GCC to live up to past promises and to provide aid to the Bahrain military forces is making it difficult for future

<sup>104</sup> Philip Finnegan, "Slow Flow of U.S. Weapons Concerns Bahrainis," *Defense News*, 9, no. 18 (May, 1994): 14.

<sup>105</sup> Philip Finnegan, "One On One," *Defense News*, 7, no. 12 (March, 1992): 22.

<sup>106</sup> Khalifa bin Ahmed Al-Khalifa, Bahrain's Minister of Defense and Deputy of the Commander in Chief, "Bahrain Upgrade Persists Amid," *Defense News*, 7, no. 10 (March, 1992): 6.

purchases to modernize. Unlike its neighbors, Bahrain does not have financing resources to buy new equipment.

#### 4. BDF and the United States

To help Bahrain continue building up its forces and as a result of the strong military relation, providing facilities for more than 40 years for the U.S. forces, and prepositioning of U.S. Naval equipment for use in crisis, the U.S. Government agreed to include Bahrain on the list of countries eligible to receive lethal equipment such as older-model F-16 fighters or older frigates no longer needed by U.S. forces. A change was approved by the Congress in November in the 1994 Defense Authorization Act. The act was signed by President Clinton on 30 November 1994.<sup>107</sup>

Bahrain will now be eligible to receive the equipment virtually free of charge in recognition of its role in supporting U.S. policy in the region. As it was stated by Major General, Khalifa bin Ahmed Al-Khalifa, Bahrain's Minister of Defense and Deputy of the Commander in Chief:

When others have hesitated, we have always volunteered our support, even bad times when the United States was not even welcomed in this part of the world. The change to allow Bahrain to receive the excess equipment was essential to strengthen that country's armed forces and show U.S. support<sup>108</sup> for an ally. It is better to have strong allies rather than weak ones.

Bahrain is seeking a broad range of air force, naval, and army equipment. Bahrain's military leadership would like to add additional F-16s to its Air Force. As an island nation dependent on keeping sea lanes open, Bahrain is interested in strengthening its Navy by requesting, as excess, an FFG-7 frigate from the U.S. for antisubmarine warfare missions. The Bahraini Government is attempting to receive advanced U.S. technologies currently not permitted for sale in the Middle East, as military relations between the two countries grow closer. In addition

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<sup>107</sup> Khalifa bin Ahmed Al-Khalifa, Bahrain's Minister of Defense and Deputy of the Commander in Chief, "U.S. May Provide Bahrain With Surplus Frigate, Fighters," *Defense News*, 8, no. 50 (13-19 December 1993): 33.

<sup>108</sup> Ibid.

BDF is seeking used support equipment from U.S. stocks which are classified as excess hardware and can be provided to U.S. allies virtually free of charge.<sup>109</sup>

Despite the approval by the Congress and the signature of the president allowing the BDF to receive lethal equipment, Bahrain Government officials indicated their disappointment by the slow pace in obtaining excess armaments from the U.S. As stated by Bahrain's Minister of Defense and Deputy of the Commander in Chief in an interview with Defense News, "We just want to join the queue, we are not even in the queue now."<sup>110</sup>

The major obstacle after Bahrain becomes eligible for excess equipment has been the reluctance of the U.S. military services to declare equipment as excess. They prefer instead to sell the equipment as used materiel, the proceeds of which can be applied to the services' own procurement priorities. But as the size of the U.S. Armed Forces shrink, large quantities of weapons are expected to be retired.

##### **5. Evolution of the FMS to BDF**

The Foreign Military Sale program was first used by BDF in 1976 for the procurement of the TOW missile system. Since then most of BDF procurement from the U.S. has been through FMS.

Bahrain has turned almost entirely to the United States in its weapon procurement program. Generally, U.S. equipment is higher quality, cheaper, and enables the country to have a single logistics system rather than dealing with many nations.

The total amount for BDF's procurement through FMS as of 30 September, 1994, was about \$1.1 billion with the total number of FMS cases at 144. This level of procurement represents 0.4 percent of the worldwide FMS sales and about 0.9 percent of the procurements by the Near East and South Asia.<sup>111</sup>

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<sup>109</sup> Ibid.

<sup>110</sup> Defense News Staff Report, "U.S. May Give Bahrain Free Arms; DoD, State Department Urge Weapon Boost for Mideast Ally," Defense News, 8, no. 14 (12 April 1993): 8.

<sup>111</sup> Department of Defense, Security Assistance Agency, Foreign Military Sales, Foreign Military Construction Sales and Military Assistance Facts (Washington, D.C.,: Comptroller DSAA, 1994), 3.

## C. BDF'S IN-HOUSE MECHANISM

### 1. Organization

BDF is structured with a Joint Headquarters (GHQ) for all units. The Planning and Organization Directorate (POD) is considered to be Bahrain Defense Forces' brain and heart. This directorate collects input from internal and external agencies, sums them up, and analyzes them to come up with the effective and efficient five-year development plan for the whole forces.

BDF has adopted matrix organization during the initial stages of project planning. This kind of organization allows BDF to form a Joint Committee (JC) from the units and the concerned directorates at the headquarters to conduct systems evaluation. Adopting this type of organization has reduced the cost of having a dedicated group of officers for the purpose of project planning and has achieved the goal of integrating the unit(s) in the preliminary stages of a project.

The JC, which is usually headed by the POD Director, will first study the roles and missions approved by the Defense Council as guidelines. Then it will look into a sequence of options to fulfill the shortfalls. These are: the possibility of upgrading what is available, aid from the allies, pre-positioning, leasing or lease-to-buy, or procurement.

### 2. Planning, Programming, and Budgeting System

BDF has adopted the Planning, Programming, and Budgeting System (PPBS) in executing arming projects. This system has proven to be reliable and practical. Over time BDF has made improvements to this system and is still doing so in order make use of it as effectively as possible with the minimum cost.

The PPBS is a proven system and will bring the best results in term of achieving the goals. PPBS also applies cost controls to each program. Its motives are to provide the most efficient and the least costly programs for the different units in terms of benefits and results.

In the business sector results, measured by profit and loss, can be measured in terms of dollars. In the defense sector results are the benefits, accomplishments, and effects which must be related to costs. Therefore, the PPBS in defense must be output oriented in terms of end projects and benefits.<sup>112</sup>

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<sup>112</sup> Reece E. Harrill, "Planning, Programming, Budgeting in Government," *Budgeting*, 15, no. 1 (July/August, 1966): 18.

The PPBS is just one part of good management. It is required to look at the future as well as at the past and present. Good planning requires a long range outlook. For most decision-making, a five-year span is generally considered necessary, although to complete many programs there must be a span that covers the delivery of the weapon system. In PPBS the examination is not always of the future. An examination of past operations and the present status is necessary to see what happened, if programs are on schedule, and if the course has to be changed to reach the objectives.

The first phase of PPBS would include analyzing the data by filling in the missing parts, determining affordable needs, establishing priorities as to needs and what can be done with the available resources, choosing between alternatives, setting goals so that the plan can be carried out and completed in accordance with a schedule for best results. This will be done after the assessment of the threat; gathering as much information as possible about the present status of things, the objectives, and the needs. The end result is decisionmaking to decide what is to be done; what resources will be needed; how is it to be done; when is it to be done; what will be the benefits and effects against the threat, and what will it cost?

The second phase is directing the plans. This means organizing the work and ensuring good communication throughout the organization at all levels so that the plans will be understood, coordination of the day-to-day operations to keep the work on schedule, and to make modification when necessary. This phase is considered more of an operational problem than a problem of planning. Generally, the operating organizations must determine by a study of alternative methods the best or most effective way of carrying the programs. In many cases it is easier to plan than to perform, and planning and performance must be linked together.

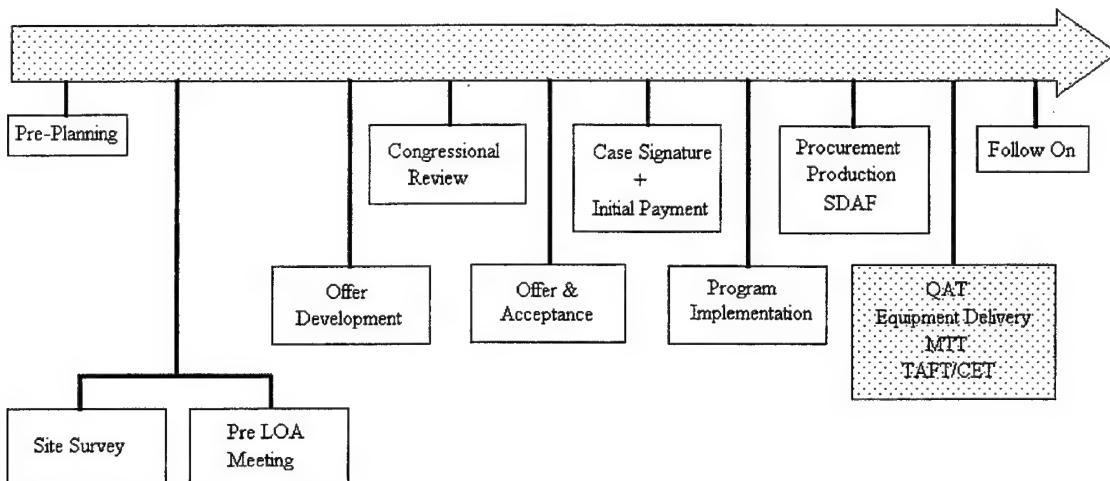
The third phase is the control, measurement and evaluation of the results. Some methods of measuring results are necessary if management is to be able to determine how effective the results are, and on that basis to take necessary corrective action. This important process is done most commonly through a system of reports appropriately related to the plans, programs and budgets. The end result may be a modification of existing plans and on occasions the establishment of entirely new plans and objectives. At the same time

accomplishments are linked with the plans, and the cycle of planning, budgeting, accounting and reporting continues.

The output of the PPBS is the Five Years Forces Development Plan (FYFDP). This plan is one of the basic requirements for the yearly defense budget. Beside having the cost requirements for the new weapon systems, the FYFDP will also include all other related costs for two years after the delivery of the system. Such time allows the concerned directorates to plan, integrate, and budget for the new system within their own yearly budget requirements once the responsibilities are transferred to them. The FYFDP is a joint effort between the GHQ and the units. The units are involved in constructing this plan right from the beginning especially at the first two phases, Planning and Programming.

#### D. THE PROCESS

To execute successfully an FMS program, which should be derived from the FYFDP, BDF has adopted the following process which is closely related to the U.S. FMS process:



**Figure 1. FMS Process**

##### 1. Pre-Planning

A Specialized Committee (SC), which is a technical/operational committee usually headed by an officer from the end user unit, will study and select the best system that meets the required roles and missions. This committee

will work closely with the manufacturers to get all the data required to assess and select the system. The committee will also work closely with the Office of Military Cooperation (OMC) at the American Embassy to acquire all releasability information. The SC final report should identify but is not limited to: the new system organization chart and how it will be integrated with the existing organization; personnel requirements and all of their generated cost; the facilities and their upkeep yearly cost; maintenance and logistics running cost, and the training/operation ammunition requirements.

The committee responsibility will extend until one year after the in-country delivery of the system. The committee has to be realistic in selecting the weapon system and will take into consideration several primary factors, some of which are the capabilities of the end users to operate and maintain the new systems and the additional requirements to fully utilize it. The committee will consider as much as possible standardization with the existing systems in order to lessen the stress on both the users and the budget.

This committee will be supervised by the Director of POD who will be briefed on a daily basis by an officer who is a member in the SC and is referred to as the Point of Contact (PoC) for the project. The POD will also be briefed on a biweekly basis by the SC.

## **2. Letter of Request (LOR)**

Once the system is selected, a letter of request for an LOA will be prepared by the SC and will be sent to the OMC. The basis for the preparation of this letter is the LOR Checklist as per USASAC's guidebook. The request should be as detailed as possible to reduce the amount of message traffic between Bahrain and the United States.

## **3. Site Survey**

The site survey teams are associated with major weapon systems and will usually be accompanied by the contractor representatives. The purpose of such a team is to help the SC in assessing the requirements for introducing a specific weapon system into the country. The other benefit of the survey is to allow for the most accurate assessment of delivery schedules and pricing data.

## **4. Pre-LOA Meeting**

From BDF's experience with the FMS, the pre-LOA meeting is a helpful action. This has become a rule of thumb at the POD for major projects. These

kinds of meetings help the U.S. Project Manager to write out a case that will require few changes. This meeting is usually preceded by a list of questionnaires on what the SC needs to cover during the meeting. In the pre-LOA meeting the results of the site survey are presented in terms of requirements and estimated cost.

### **5. Offer Development**

Once the LOA is written by the applicable Implementing Agency (IA) an Advance Copy (AC) which is not countersigned will be forwarded to the POD before it is sent to DSAA for countersignature. After receiving the AC, the SC will study it and forward the required memos to their superiors for approval.

### **6. Congressional Review**

One of the roles of the Congress is to review the proposed arms transfers under FMS, and approve or disapprove the releasability of the weapon system. Therefore, the POD stays in close contact with DSAA and provides the status of the releasability request and if needed, will arrange the required coordination with the assistance from the manufacturer to achieve the releasability.

### **7. Offer and Acceptance**

Once the original cases are received, in a matter of days the case is signed (if the advance copies were reviewed) and forwarded to the OMC with a cover letter which will specify the changes required (if any) and the directions for the payments of the initial deposit.

### **8. Initial Payment**

The payment can be done by using one of three available methods: from the holding account, from the interest bearing account, and from the budget. The transfer of money using the first and second methods is faster because those accounts are held in the U.S. and require BDF authorization for money transfer. The third method usually takes time because it involves many approval stages.

BDF maintains a direct telephone link with Defense Finance Accounting and Service (DFAS) which helps in following up the payments and is used to clarify aggregated payments. Once DFAS confirms receiving the initial deposit, the next step is to follow the implementation.

BDF maintains three major holding accounts with DFAS . Those are the Army (1BB), the Air Force (1DD), and the Navy (1PP). Some of the sources of money for those accounts is excess money that is identified at the different cases

and compensations for the approved Reports of Discrepancies. None of these accounts generates interest, so the BDF policy is to keep in them the minimum amounts required to remain open.

There is a fourth account that is held at Federal Reserve Bank-New York (FRB) which generates interest and contains most of the money. To expedite the case implementation, and to get around the multiple stage payment procedure from the budget, POD can send a request to deduct the initial payments from this account, which then can be reimbursed once the payments are approved from the budget.

#### **9. Program Implementation**

Most of the major projects are implemented with no delay, but other isolated cases may take as long as a year. A master delivery schedule will be prepared and updated by SC based on the implementation dates.

#### **10. In-Country Requirements**

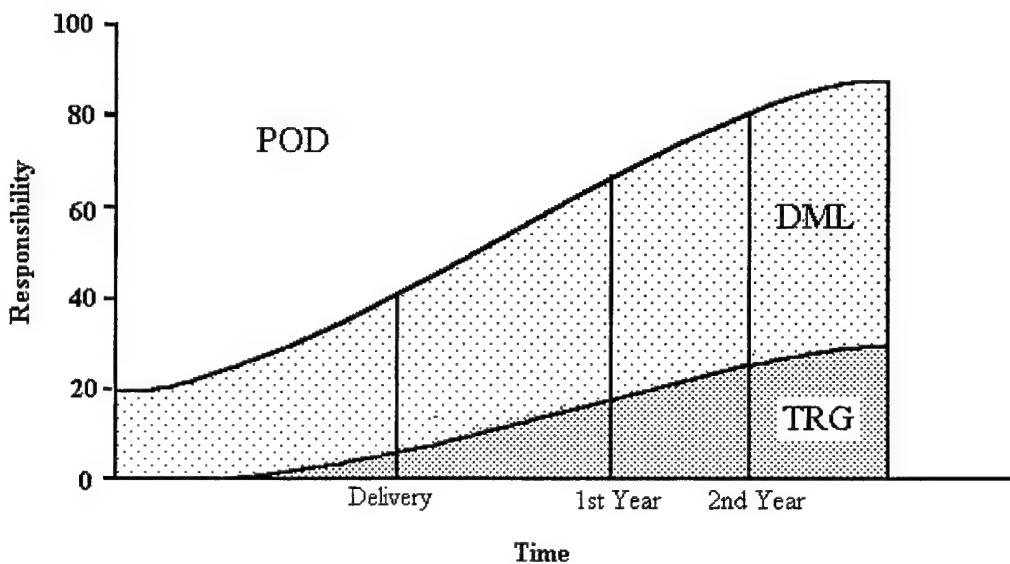
The SC will work on the in-country requirements to support the project and will work with all the concerned directors at the GHQ for the requirements. Those requirements are: recruitment, facilities, ground support equipment, selecting and preparing both the officers and enlisted, updating the master schedule for the project, updating the running cost reference, arranging with the different agencies to support the delivery of the systems once delivered, and working on the security clearances for the different teams that are related to the project.

The different teams that usually accompany the delivery of major weapon systems are: the Quality Assurance team (QAT), which is responsible about the in-country assembly of the weapon system; the Mobile Training Team (MTT), which will conduct the operational training on the weapon delivered weapon system; the Technical Assistance Field Team (TAFT), which are military personnel that will provide technical assistance and training to the recipient military personnel in the operation, maintenance, and employment of specific equipment, technology, weapon, supporting systems, or other special skills related to military functions; and the Civilian Engineering Team (CET), whose function is similar to the TAFT except that they are civilians from the manufacturer.

The SC will brief the Defense Council on the process on a monthly basis. In such meetings all the concerned directors will attend so that problems can be solved on-the-spot and with no delay.

### 11. Follow-On Support

POD is in charge of the project for two years starting with the successful operation of the system and the acceptance of the concerned unit. Within those two years the concerned directors will work closely with POD to work out additional budget requirements to support the projects. The POD's responsibility will then be transferred to the Training Directorate (TRG) who will be responsible for the follow-on training and to the Maintenance & Logistics Directorate (DML) to look after the maintenance support and follow-on spares requirements. Ammunition support (both training & life) will remain the responsibility of POD. The roles of the directorates in the procurement programs can be shown as follows:



**Figure 2. Directorates' Role**

## **D. FOREIGN MILITARY SALES VS DIRECT COMMERCIAL SALES**

### **1. Foreign Military Sales**

BDF has used both FMS and DCS with the U.S. Government and manufacturers around the world. BDF's experience with the FMS goes back to 1976, and the BDF has always preferred FMS over DCS. There are many reasons for this, chief among them is the government-to-government dealings which become a key element that will ease the approval process within the BDF. The advantages of the FMS can be summarized as follows:

- Complete project that takes advantage of the American military experience.
- Reduces the cost because of:
  - Consolidating procurements.
  - Availability of Government Furnished Equipment (GFE).
  - Allows for competition between different sources.
- Standardization with the U.S. forces.
- The customer pays the actual cost plus three percent as administration fee.
- Utilizing the money paid to its full extent, by allowing excess money from one case be transferred to others.
- Quality assurance.
- Availability of equipment from the U.S. stock in crisis situation.
- Participation of the U.S. DoD in the project planning, defining the general concept, optimization, and determining the effect on the doctrine of the project.
- Assure the use of the U.S. military schools.
- Availability of ammunition.

## **2. Direct Commercial Sales**

The DCS process requires a dedicated staff to handle its various aspects which the BDF lacks at this stage. It is usually the responsibility of an officer in the POD in charge of the project to deal with and follow the contractual issues.

The DCS process, which is time consuming, starts with a study of all technical issues with the contractor representatives. Then, the terms and conditions are finalized with the lawyers. Finally, price negotiation with the Paymaster, who can be counted on to squeeze the contractor for the maximum discount. In spite of this, DCS has advantages over the FMS. The advantages of DCS can be summarized as follows:

- Specific cost and delivery schedule with the ability of penalizing the contractor in the case of a breach.
- Negotiation on the cost and the contract terms and conditions.
- Quick response because of the direct contact.
- The only source for non-military standard.
- Continuity in dealing with the same people.
- All equipment is new.
- Constant and fixed payments which makes it easier for the budgeting.
- Possibility of benefiting from the OFFSET programs for technology transfer.
- No administration fee.
- Continues improvement for the buyer abilities in negotiation.

## **3. Manufacturer's Role**

Even though BDF prefers executing acquisition programs through FMS, the BDF still rely on the contractors for other important aspects that serves the PPBS's different phases.

POD uses the contractors as a source of information regarding the weapon system during the initial processes. The contractor is also used by POD as a good

coordinator with Congress to obtain releasability (General Dynamics played a major role to grant the F-16 releasability for Bahrain). The contractor can provide information regarding the operating cost of the system and can assist in administering the project by attending the Program Management Review (PMR) for FMS projects. Contractors can also provide an excellent feedback about the process of the FMS project and the project's status. POD always avoids crossing the line where the contractor is in competition with the U.S. Government, which is against the law.

After reviewing both the U.S. FMS process in Chapter III, and BDF's mechanism to deal with the FMS in this chapter, the next chapter shall address the impact of the FMS on the policies on BDF.

#### **E. SUMMARY**

Since BDF was formed in 1968, the Government of Bahrain has continuously supported the development of the BDF. Being a member of the GCC, Bahrain was to receive resources to build its defense force from richer members of the six nations group. Due to financial problems of some of those countries, the commitment to Bahrain was not kept. This led the government to go into debt to pay its bills and to cover its obligations of past commitments.

In recognition of its role and the continuous support of the U.S. policy in the region, President Clinton signed on 30 November 1994, an act that authorizes Bahrain to receive excess lethal military equipment.

FMS was first used by BDF in 1976. Since then, most of its procurement from the U.S. is done through this channel. BDF procurement represent 0.4 percent of the worldwide FMS sales.

BDF has adopted PPBS in executing its military procurement projects. The output of the PPBS is the BDF's FYFDP. This plan is a joint effort between the BDF Joint Headquarter and its units and is the basis for BDF's budget.

The process of FMS in BDF is similar to that implemented by the United States. To achieve continuity, the SC is responsible for the project starting from the pre-planning phase until one year after the in-country delivery and the acceptance by the end user.

BDF has always preferred FMS over DCS for many reasons, chief among those is the government-to-government dealing. However, BDF relies on the

manufacturers as a good source of information during the evaluation phase and also as an important player in the coordination of the sale of the weapon system to the BDF.

## V. IMPACT OF U.S. FMS POLICIES ON BDF

### A. INTRODUCTION

No country is completely self-sufficient for all of its defense needs. Even the United States must look abroad for advanced communications systems and training aircraft. It also imports various raw materials needed for weapons development. But for Third World countries, the issue of how to achieve and maintain a modern force structure, both in terms of order of battle and organization, is increasingly an acute problem.

Before any country enters into a program of force modernization, it is vital that the perceived threat be properly defined and that an assessment of the country's ability to meet that threat be made. For some countries, the answer to their defense needs is to purchase equipment from foreign sources. Others would be wiser to establish a defense industrial base.<sup>113</sup> For a country such as Bahrain, where natural resources are lacking, an industrial infrastructure is lacking, and where manpower, most of all, is lacking, it is not practical to consider building a domestic defense industry. Bahrain must continue to depend on suppliers for its defense equipment.

While such an arrangement may run like clockwork during peacetime, it is important to consider the consequences of depending on another country for spare parts and maintenance in a time of a conflict. One possible problem is that the supplying country may no longer be an ally as a result of political changes. An example of this is the problem Iran faces in maintaining its U.S.-built equipment. There is also the problem of ensuring deliveries from a friendly country for the duration of a protracted conflict. A good example is the problem Argentina faced during the South Atlantic War, since its equipment was largely U.S., French, and even British. Speed of delivery in time of conflict is another important consideration. An example of this is the U.S. resupply of Israel in the

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Gergory R. Copley, "Keeping Up With the Neighbors," *Defense & Foreign Affairs*, 14, no. 1 (January, 1986): 22.

1973 war that showed that extraordinary measures might be necessary in a fast-paced protracted war.<sup>114</sup>

Despite these possible problems, Bahrain's leadership hopes that these problems can be overcome by maintaining close ties with the allies. For armed forces such as Bahrain Defense Force (BDF), with limited budget, moderate size, and fully dependent on importing all of its military needs, small mistakes can be expensive, petty delays can be serious, and unstable flow of support can be harmful.

BDF depends on FMS for modernization, even though the FMS has adopted, and continues to adopt policies that affect negatively its procurement planning, the fielding of the defense articles to BDF units, and the operational readiness of BDF weapon systems. It is important for BDF to adopt accurate budget planning so as to use its limited resources effectively and efficiently, and also to maintain a reasonable flow of logistical support ensuring timely weapon system operation and readiness.

This chapter builds upon the information presented in chapter II and III to answer a key questions related to the U.S. security assistance FMS policies:

- What are the problems that play key roles in the efficiency of BDF procurement planning?
- What are the problem that affect the fielding of the defense articles to BDF units?

Also this chapter will address two areas concerning the Cooperative Logistic Supply Support Arrangement (CLSSA) that affected the recipient support and weapon system readiness. Those are:

- The reliability of the CLSSA which is DoD's most effective means to replenish the in-country stock of spare parts and repair parts<sup>115</sup> and the greatest support for the least cost.<sup>116</sup>

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<sup>114</sup> Ibid. 28.

<sup>115</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 350.

<sup>116</sup> Ibid. 343.

- As a result of the U.S. policy of not considering the ammunition and its components in the CLSSA program,<sup>117</sup> the problems that are facing BDF in regard to ammunition procurement.

## B. IMPACT ON BDF's PROCUREMENT PLANNING

### 1. Contract

Under the Arms Export Control Act (AECA), the U.S. Government offers to sell to purchasers defense articles and services. The Letter of Acceptance (LOA) is the official agreement between the United States and the purchaser regarding terms and conditions pertaining to furnishing certain goods and services.<sup>118</sup> Essential to any contract is an agreement that may be defined as a so-called "meeting of the minds" prior to the transaction.

When procuring for the purchaser, the DoD employs the same contract clauses, the same contract administration, and the same inspection procedures as would be used in processing for itself, except as otherwise requested by the purchaser and as agreed to by the DoD. In general, the low skill level of the purchaser's contracting staff is one of the major reasons why the purchaser favors FMS.

Most FMS customers do not have skilled contract teams. Further, it is not easy for them to understand the U.S. Government's complex contract laws. Therefore, even though the purchaser has specified exact requirements, the United States often fails to reflect them in the contract. The major problems of the purchaser are as follows:

- Misunderstanding of the U.S. Government contract laws and regulations. The Arms Export Control Act (AECA), Defense Acquisition Regulations (DAR), Federal Acquisition Regulations (FAR), General Conditions of DD Form 1513 are the basic documents of FMS contracting.<sup>119</sup> However, it is difficult for the purchaser to follow them without a professional contract team because of their

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<sup>117</sup> U.S. Army Security Assistance Command (USASAC), Cooperative Logistics Supply Support Arrangement, Orientation Pamphlet, (New Cumberland: USASAC, 1994), 2-1.

<sup>118</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 150.

<sup>119</sup> Ibid. 252.

complexity. Further, the changes of regulations and their impact on the purchaser are hard to interpret. The general terms and condition on DD Form 1513 are frequently illegible. As a result, the misunderstanding of the contract laws leads to an unfair and unilateral contract.<sup>120</sup>

- Poor communication in the contract. There should be a “meeting of minds” in the contract. However, there are several obstacles to the communication: few officers with the contractual and language skills, the miscomprehension of the contract laws, ill-preparation of negotiation, and the uncertain requirements.
- Poor negotiation. Neither government can direct the transaction. Sales should be negotiated. Unfortunately, there are no negotiation clauses in the Manual of Security Assistance Management or other security assistance references. Clearly, negotiation is the most important area which the purchaser must develop. The reasons for poor negotiations are similar to the reasons for poor communication.
- Inflexibility of contract type. The only type of agreement available under FMS is cost reimbursement.<sup>121</sup> This type of contract is often used in U.S. Government procurements. Its typical applications are for research and development. Cost reimbursement contracts provide for payment of allowable cost incurred in the performance of the contract, to the extent prescribed in the contract. It establishes an estimate of costs for the purposes of obligation of funds, and a ceiling that the contractor may not exceed without prior approval by the contracting office. FAR, Part thirty-one contains statement-of-cost principles that are used as the basis for determining cost under cost reimbursement contracts. This type of contract is used only when it is likely to be less costly than other methods, or it is impractical to secure suppliers or services of the kind or quality required without the use of such a

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<sup>120</sup> For the customer to understand the law, implementing rules, regulations, directives, instructions, and orders, not only does he need to be familiar with LOA Clauses, but to understand several other U.S. documents and regulations. Some of those are: FAR Section 2.101, which explains the acquisition policy, Defense Federal Acquisition Regulation Supplement (DFARS) Subsection 225.73 which sets the procedures applicable to acquisition, DoD Directive 5000.1 and 5000.2, and Security Assistance Management Section 80101.

<sup>121</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 296.

contract. However, the FMS customer does not have any other alternatives except this type of agreement.

- No waiver clauses to BDF. Only where it is proved clearly that a particular sale significantly advances U.S. interests in standardization, the specific cost recoupment charges may be reduced or waived. Under the current law, waiver is applied to NATO, <sup>122</sup> NATO member countries, Australia, Japan or New Zealand. The BDF has been in a close relation with the U.S. and is equipped mostly with the U.S. standardized weapon system, but is not included in the waiver clauses.

## 2. Pricing

Current pricing policy is a legacy from the past. Since the Second World War, the U.S. has been the major supplier of weapon systems to the Free World, and frequently the only source of support for a specific weapon systems. The AECA <sup>123</sup> requires the U.S. DoD to recover the full cost of all foreign military sales.

In U.S. Government procurements, high dollar contracts for major weapon systems frequently fall into the category of sole source negotiations. Such negotiations, however, usually start as intensively competitive negotiations. Competition is based on cost, design and management areas. Even in sole source negotiations the U.S. Government must buy at reasonable prices. Prices will be negotiated. Competition is the prerequisite of the U.S. Government procurement. When it is not possible, then a cost analysis must be performed.<sup>124</sup>

From the perspective of the U.S. customers, prices are also a primary source of decisionmaking in the defense procurement. The good performance at a reasonable price makes a certain system attractive to a customer. In reality, it is difficult for the foreign country to evaluate prices of weapon systems provided by FMS. The only source of a sales price from the U.S. Government is the Planning and Review (P&R) or the Price and Availability (P&A) which includes

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<sup>122</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 3rd Edition (Dayton: Wright-Patterson AFB., 1982), 3-18.

<sup>123</sup> U.S. Department of Defense, *Military Assistance and Sales Manual*, DoD 5105.38M (Washington, D.C.: U.S. Government Printing Office, December, 1981), III.

<sup>124</sup> David L. McIlhaney, *Some Problems in DoD Policy for Pricing of FMS*, Leadership and Management Development (Alabama: Maxwell AFB, 1982), 1-3.

charges as a single price. Further, information on the P&A of the U.S. defense equipment or services is provided with the LOA. Under DoD policy, the customer has only sixty days to accept the LOA.<sup>125</sup> Accordingly, the customer has only limited pricing information and a short period of time for review. In detail, the other restrictions on the customer's price evaluation are as follows:

- The U.S. Government does not compete with U.S. industry for military sales. Moreover, as a matter of policy, the U.S. Government normally does not knowingly provide foreign customers comparison price information.<sup>126</sup>
- The direct comparison of LOA and commercial contract prices is difficult since they employ quite dissimilar pricing structures.
- DoD policy allows the purchaser only sixty days to review the LOA.<sup>127</sup> Usually, this is not enough time to evaluate P&A in the developing countries.
- P&A or P&R is only an estimate of total cost.<sup>128</sup> According to the General Conditions of DD Form 1513, the purchaser shall make payment(s) to the U.S. Government of the total cost to the U.S. Government of the item, even if the final total cost exceeds ten percent of the amounts estimated on LOA. Thus, the large variance between the estimation and the final cost may make a price evaluation worthless.
- Without consideration of its requirements for the weapon systems in advance, and if the purchaser relies only on the P&A or P&R, price evaluation may not be beneficial. In addition to price, delivery time, quality and performance are other major areas to be considered. Even though the purchaser procures weapon systems at a low price, the

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<sup>125</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 3rd Edition, 9-6.

<sup>126</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 261.

<sup>127</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 3rd Edition, 9-6.

<sup>128</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 148.

purchaser's specific requirements, performance, and quality cannot be insured.

- The U.S. Government has pursued a program to recover its full cost of transaction.<sup>129</sup> It has neglected to calculate the savings to the U.S. through the FMS programs. Savings attributed to FMS are classified into five major categories: Research and Development (R&D) recoupment, learning curve effects and economies of scale, overhead cost, production line gap and others. The U.S. Government has also failed to consider the additional costs caused by the U.S. Government in administering the FMS program. Some examples include late delivery, delay of reporting and processing, double billing or wrong prices.

### 3. Financing

FMS is a cost reimbursement agreement which requires advance payment. No matter what the estimated costs, payment schedule, or terms of sale specified in the LOA, the General Conditions of DD Form 1513 require that the FMS purchaser shall pay in U.S. dollars for the full value of transaction and that there shall be no cost to the U.S. Government.<sup>130</sup> Financing is a primary concern of both the customer and U.S. because it affects the funds flow of the FMS transaction. There are some considerations that have a significant impact on the purchaser:

- Case closure. The reason closure is discussed here is that it is a significantly sensitive area for the customer. Delay of case closure happens for the two reasons: no agreement on final contract price between the Foreign Government and the U.S., or no closure of the contract between the U.S. and its contractor. Sometimes these<sup>131</sup> delays are up to five years and preclude settlement of the FMS case. Such delays should be unacceptable to both the U.S. and the FMS customer. The Armed Services Procurement Regulation Supplement (ASPS) No. 2, Paragraph S2-305(a) provides the following standard times allowed for closing physically completed contracts: fixed price unilateral purchase orders, three months; firm fixed price, six months; and all other contracts twenty calendar months after the month in which it is

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<sup>129</sup> Ibid. 278.

<sup>130</sup> U.S. Letter of Offer and Acceptance (LOA), Terms of Sales, DD Form 1513, Section 4.4.

<sup>131</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 3rd Edition, 8-16.

physically completed.<sup>132</sup> However, these standard times are usually not observed;

- High Report of Discrepancy (ROD) claims limitation. It is the policy of the U.S. to efficiently process reported claims and to be responsible for their collection, with the U.S. reimbursing the recipient country. The current minimum monetary value for reporting discrepancies is \$25 for cases prior to 1 August 1977 and \$100 for cases on or after 1 August 1977. The reason for raising the limit was that the number of discrepancy reports processed by the DFAS in a recent year approached<sup>133</sup> 30,000 and with an estimated \$115 cost of processing for each ROD. The BDF suffered losses of thousands of dollars for RODs below \$100.
- Cost reimbursement with the advance payment. The purchaser<sup>134</sup> shall include in payment the costs estimated for the next three months.

Collectively, the increase in price, the changes in the quarterly payments, the delays in the delivery of the defense articles, and the case closure are all affecting BDF's budget planning, rationing, and its force development.

When BDF budgets to pay a certain amount for a weapon system, based on the prices reflected in the FMS case, BDF may end up paying twice as much the budgeted price. Also, if BDF budgeted to pay another amount for the different FMS cases during the year, based on the quarterly requirements, the BDF might have to postpone other projects to pay the required amounts or may end up ultimately losing the entire amount.

In the first situation, where other projects must be postponed, the required payments for the FMS cases are higher than those indicated in the quarterly requirements schedule. In the other situation, where the money may ultimately be lost, the actual quarterly payments requirements by the DoD for a project are less than the scheduled amount or in some cases where payments are not even required. This does not mean saving the money, but in fact losing it. At the end of the year all the surplus will go back to the Bahrain's Government. This latter

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<sup>132</sup> Ibid. 8-17.

<sup>133</sup> Ibid. 22-1.

<sup>134</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 288.

situation has more impact on the BDF's following year budget, because the government looks at the surplus as money not required and therefore, better utilized somewhere else.

Additionally, the delay in the delivery of the weapon system is causing the directorates and the units to lose confidence in the BDF's Five Years Force Development Plan (FYFDP). Of course, it is only a plan and changes are expected, but a plan is also an administrative process that has become increasingly prominent as a sign of good management. An organization that does not plan is thought to be reactive, shortsighted, and rudderless. Planning has become a ceremony that an organization must conduct periodically if it wants to maintain its legitimacy. A plan is a badge of honor that organizations wear conspicuously and with pride.<sup>135</sup>

#### **4. Implementation**

The signature by the customer on the LOA marks only the end of an initial process. The full process may extend to four years for major weapon systems. The implementation time, which is the trigger for starting the project, is usually within three months of the FMS case initial payment being received by Defense Finance and Accounting Service (DFAS).<sup>136</sup> In some cases, the implementation time has been shorter than usual especially with FMS cases related to major weapon systems. A recent example of the short implementation, the BDF's Peace Arrow project, concerning Cobra attack helicopters, includes six FMS cases. Although those cases were the responsibility of different Commands and Agencies, they were all implemented within the three months period. However, this has not been the case with another FMS cases, where the implementation time, in most situations, is undefined.

The implementation process in some cases may extend to a year or even longer, which will in turn affect the Planning, Programming, and Budgeting System (PPBS) by delaying other scheduled programs. Beside being lengthy, the implementation time for FMS cases can vary from one FMS case to another even though it is a very similar case. This variation has made it even more difficult to

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<sup>135</sup> Lee G. Bolman, and Terrence E. Deal, *Reforming Organizations*, 1st Edition (San Francisco: Jossey-Bass Inc., 1991), 281.

<sup>136</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 162.

use the already undefined implementation time as a reference for future planning. It has also led to uncertainty, delays, and is a source for continuing variation of the plan as will be seen in the following examples.

On January 1987, BDF requested grenade launchers through FMS. Three FMS cases, the launchers case with a delivery of thirty months, the ammunition case with a delivery from stock, and the training case, were signed by BDF after six months of the request. The ammunition case was implemented within five months and the delivery took place on January 1988. On June 1988, BDF was advised by the OMC that a new request for the launchers and the training had to be initiated because the responsibility of this system had been transferred from the U.S. Navy to the U.S. Army. The new cases were received on June 1989 with a new estimated delivery of forty months. The cases were implemented on February 1990, which means that the delivery will be on June 1993 instead of July 1989.

In another case, the BDF had requested training ammunition for M60A3 tanks currently operated by BDF. The case was implemented within seven months from the signature date and the initial deposit. This seven months period is usually the most current reference to plan future requirements. In the following year, the BDF had requested the same quantity and type of ammunition using the previous case data as a good planning reference. It is unfortunate that the new case reflects a delay of two years in the delivery. The case was implemented fifteen months after the case was signed.

### C. IMPACT ON BDF's SUPPLY SUPPORT AND WEAPON SYSTEM READINESS

#### 1. Supply Support

Customer countries overwhelmingly prefer to acquire defense systems' follow-on logistic support through additional FMS cases rather than direct commercial support.<sup>137</sup> Currently, there are fifty Cooperative Logistic Supply Support Arrangement (CLSSA) participants out of the seventy-six countries and two international organizations that purchase follow-on logistic support from the

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<sup>137</sup>

Charles B. Barry, *The Management of Security Assistance*, 13th Edition (Dayton: Wright-Patterson AFB., 1993), 337.

U.S.<sup>138</sup> Ninety-seven percent of these follow-on requisitions are submitted via the special logistic program CLSSA. The CLSSA program is designed to enhance timely follow-on spare and repair support by providing a mechanism for the FMS customers to participate in the DoD supply system. To participate in CLSSA, the FMS customer must project anticipated future requirements and provide an initial deposit equal to five-seventeenths of the material value of their requirements. The DoD then orders the material so that when the FMS customer actually needs the material, the material is either already on-hand ready for shipment or on-order with most of the procurement lead time having already transpired.

Two types of FMS cases form the basis of the CLSSA program: the Foreign Military Sales Order I (FMSO I) and the Foreign Military Sales Order II (FMSO II). Basically, the FMSO I orders material into the DoD inventory in anticipation of subsequent FMS demands, and the FMSO II pulls the material from the DoD inventory and provides funds for the procurement of a replacement item. The DoD managed FMSO I cases are collectively valued at \$1,086,275,576 as of 7 March 1994, and the FMSO II cases had an annual requisitions value of \$715,289,936. Cumulatively, the CLSSA program has an impact on the DoD supply system of \$1.8 billion.<sup>139</sup>

The FMSO I does not operate in an efficient manner for investment items. Thirty-six percent of all investment items on the FMSO I case have had no demands in the past four years and fourteen percent of the items added to the FMSO I in the past four years also have had no demands. Over the past ten years, only about forty-five percent of the investment item requisitions submitted received the benefits of preferential supply treatment offered by CLSSA.<sup>140</sup> The estimated amount of funds obligated to the thirty-six percent of items that has not been demanded is around \$319 million. This amount has been growing over the last few years at a seven to ten percent rate.<sup>141</sup> This means that the foreign

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<sup>138</sup> Security Assistance Management Information System Report, CLSSA Requisition Summary History, PCN: U-W001 (QAID 253R) (Dayton: Wright-Patterson AFB., October, 1993), 1.

<sup>139</sup> Ibid.

<sup>140</sup> Ibid.

<sup>141</sup> Ibid.

J. S. Grafton and E. W. Sollmann, "Assessment of Forecasting Methods" (Dayton: Air Force Institute of Technology, September, 1994), 9.

customers' investment purchased items that are no longer required or are very low demand items. The funds used for those purchases could have been used more effectively, if a method existed, to accurately predict the items actually demanded. Additionally, another concern is over the price of the items that is constantly increasing due to inflation and storage charges.

The impact on the price was greatly increased by the DoD implementation of Defense Management Review Decision (DMRD) 904 in October 1992. DMRD 904 directed the stock funding of reparables.<sup>142</sup> Stock funding had a direct impact on CLSSA investment items because almost all investment items are reparables. Before reparables could be converted to the stock fund concept, the reparable inventory had to be capitalized. This capitalization action increased the price of CLSSA investment items in inventory between five and thirty seven percent.<sup>143</sup> The percentage of increase was based on the data of the last procurement (acquisition cost). If the item had not been bought for years, as in the case of some F-5 aircraft components,<sup>144</sup> the price increase is close to thirty-seven percent.

Prior to the implementation of DMRD 904 the stock list price of an item was only updated (increased or decreased) when a reprocurement action was taken. This meant that once the CLSSA customer added an item to the FMSO I case, it could remain on the case indefinitely without experiencing a price increase, even if there was no usage for the item. However, under DMRD 904, the price of the item will be adjusted (increased or decreased, but mostly increased) each year. Therefore, if the customer maintains an inactive item on the FMSO I case, and the price of the item increases each year, the customer will be assessed a higher price to keep the item on the FMSO I case (the five-seventeenth amount required to be on deposit will increase). In addition, the customer will be assessed a higher price (the current stock list price) when the customer removes the item from the case.<sup>145</sup> Thus implementation of DMRD 904

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<sup>142</sup> Stanley R. Arthur, "The DMR Challenge," Newsletter (September-October 1990): 6-7.

<sup>143</sup> Security Assistance Management Information System Report, CLSSA Requisition Summary History, 1.

<sup>144</sup> Ibid. 2.

<sup>145</sup> Arthur, "The DMR Challenge," 6-7.

imposed a twofold penalty on the CLSSA customers who do not actively manage the items on their FMSO I case.

This poor performance is a clear indicator that the DoD needs to modify the CLSSA program to ensure that it operates efficiently and provides quality, timely spares support in response to the foreign customers' investment. If the DoD cannot provide timely logistic support for its weapon systems, the use of FMS and its associated reliance on the personal and material resources of friendly governments for augmented support in a conflict will diminish. Loss of FMS sales would also mean a loss in political, military, and economic benefits for the U.S. as a whole. To continue to share these support costs with the allies and to maintain the U.S. defense industrial base, the DoD must provide efficient, quality customer logistic support.

In order to receive the full benefits of the CLSSA program, the customer must ensure that the FMSO I case contains actively used items. Preferential supply treatment offered by CLSSA is referred to as "programmed" support. Through the proper management of the FMSO I case, the customer can ensure that all his requirements receive programmed support. The benefit of a programmed requisition versus a nonprogrammed requisition is in the amount of stock on the shelf that can be shipped to fill the requisition. Programmed requisitions are eligible to be filled from stock down to the zero level. Nonprogrammed requisitions are eligible to be filled from stock only if the on-hand assets are above the item manager's control level. Thus, if the item manager's asset position was at the control level a programmed requisition would be immediately filled to the zero level. In this same situation, a nonprogrammed requisition would be filled one lead time away, resulting in support delay, and most likely an increased unit price.<sup>146</sup>

Since the FMSO I is an on-going case, the value can vary based on changes in the participant's requirements. The DoD renegotiates the FMSO I case every six months to financially update the FMSO I case value. The DoD uses the participant's two year demand history and the existing stocklevel requirements to produce a CLSSA Stocklevel Renegotiation List. This list is intended to be used

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<sup>146</sup> Department of the Air Force, *CLSSA Country Brochure*, 4th Edition (Dayton: Wright-Patterson AFB., July, 1990), 9-5.

by the participants to evaluate their current investment items' Stock Level Quantity (SLQ) and make adjustments based on current and projected operational requirements.<sup>147</sup> However, for many CLSSA participants, renegotiations is a difficult task. Many participants do not have established procedures, experience, or tools necessary to make good predictions. This results in items and quantities on the CLSSA that did not receive the level of customer country management necessary to ensure that the country's CLSSA reflects its actual needs.

## **2. Weapon System Readiness**

The sale of a weapon system and its associated spare parts and accessories to an allied foreign country can constitute "an investment in the national security and well-being of the United States."<sup>148</sup> Foreign Military Sales provide the U.S. allies with the means of defending their own nations, making them stronger and better able to share in the defense of the free world. The United States can then reserve its armed forces for more significant threats to its own national security.<sup>149</sup>

The key words for logistics planners clearly have become readiness and sustainability. The first implies having enough weapons and supplies at the beginning of a war; the latter refers to the ability to procure, maintain, and deliver additional at once as needed during the course of a conflict.

If a foreign customer became dissatisfied with the U.S. procedures for processing his spare requirements, the customer can still pursue his requirements directly through the manufacturers. But this is not the case with ammunition requirements. The ammunition must be procured through the DoD.

The rapid advancement during the last two decades in weapon technology and the requirement to improve its operational readiness, has led to increasing complex and sophisticated types of ammunitions. This sophistication makes the ammunitions maintenance requirement more complex. To improve the operational readiness of a weapon system and to sustain a conflict, the ammunition availability has to be increased especially because readiness implies

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<sup>147</sup> Ibid., 7-2.

<sup>148</sup> Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 12th Edition (Dayton: Wright-Patterson AFB., May, 1992), 6.

<sup>149</sup> Ibid.

not only the ability to attempt to accomplish a mission but also to accomplish it well.

Optimizing the storage of ammunition is critical and complicated. It is critical because in war, a sufficient quantity of ammunition may make the difference between victory and defeat. It is complicated, because storage involves weighing and balancing the factors of cost, space, ammunition type, shelf life, and the identity and size of potential enemies.

The BDF has experienced a lot of delays in the procurement of its live and training ammunition requirements. The delay is mainly due to the long lead time for delivery and the complexity of the parts that make-up a type of ammunition. As an example of the complexity, twenty-eight parts are needed to build one 500 bound bomb (MK-82). Adding to the complexity, some of the parts have limited shelf-life and some have different units of issue. If this bomb were to be prepared as a laser guided bomb, then the number of units required will increase to thirty-two. It is becoming even more difficult to get the right mix of ammunition to achieve combat lethality with declining budget.

Although required for weapon system support, ammunitions and ammunition components are ineligible for the CLSSA program. It seems that the DoD, up until this time, has only considered timely responsive support to equipment other than ammunitions.

Procurement of ammunition is very expensive. Usually it is one of the primary drains on any force's budget. Therefore, ammunition needs to be well controlled and should be stored in a controlled environment to insure an extended life. Storing ammunition should be optimized, so that during a crisis, the required types of ammunition are available at the right place and the right time.

It is clear that defense decisionmakers face a difficult planning and management task: assuring that their peacetime decisions result in maximum effectiveness of their combat units in a wartime environment. It is apparent that the defense decisions made today have great impacts on a nation's security in the future.<sup>150</sup>

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<sup>150</sup> A. R. Al-Zayani, "Formulation and Analysis of Some Combat-Logistics Problems," Doctoral Thesis (Monterey: Naval Postgraduate School, 1986), 10.

In spite of all areas of concern, the FMS is still very efficient. The fact that there is willingness on the part of foreign governments to continually buy under FMS guidelines proves this. However, room for improvement does exist, and some effort is needed to consider the buyer's interest. For the United States to be able to rely on its friends and allies, it is important to help them maintain high weapon system readiness rates by being more responsive to their requests.

#### D. SUMMARY

For some countries, the answer to their defense needs is to purchase equipment from foreign sources. For others, it would be wiser to establish a defense industrial base.<sup>151</sup> There are consequences in depending on another country for spare parts and maintenance in a time of a conflict. The leadership of Bahrain, one of the first group of countries, hopes that problems of depending on others can be overcome by maintaining close ties with the allies.

The U.S. FMS is governed by the policies of U.S. security assistance, which have been viewed differently in each U.S. administration, as explained in Chapter II. In some cases, it is unfortunate that these policies have had negative impacts on the FMS recipients. The FMS, the largest element of the overall security assistance program, is overwhelmingly used by the U.S. customers, and as a result receives the most criticism. Each customer has his own priorities and his own ways of doing business. Additionally, the customer pays the United States 3 percent of the overall case value to the United States to manage and administer the case. Whatever the outcome, the customer must accept it. It is not unreasonable to say that, being paid to manage the case, the U.S. should take some responsibility for the outcome of the case.

The U.S. policies in regard to the FMS have obvious effects on the recipient planning and his weapon system readiness. The FMS contract clauses, the implementation, the pricing, and financing policies, all have an impact on the recipient budget planning, rationing, and force development.

In addition, the methods that have been established for using CLSSA, which is considered by the DoD as the most effective means to support the customers needs, are not reliable enough and require improvement, so that the

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<sup>151</sup> Copley, "Keeping Up With the Neighbors," 22.

customer may benefit more from his investment in the CLSSA. Although required for weapon system support, ammunition and its parts are ineligible for the CLSSA program. On top of that, the normal support for the customer's ammunition requirements is delayed due to the long lead times and the complexity of the parts that make-up modern ammunition. To better support its friends, the United States must improve those policies and should reconsider its policies regarding the ammunition, being ineligible for the CLSSA support. The customer can still use a defense article, in the event of war, even though it is not fully mission capable (FMC), but can do nothing when the mission requires ammunition or equipment that is not in FMC condition.



## **VI. SUMMARY AND RECOMMENDATIONS**

### **A. INTRODUCTION**

The purpose of this chapter is to briefly summarize the thesis and offer recommendations for future areas of research.

The objective of this thesis is to discuss the impact of the U.S. arms transfers policies on the recipient force.

The thesis began by addressing the U.S. security assistance. Chapter II described the evolution of the U.S. security assistance policies, its programs, the U.S. policy in the Arabian Gulf, and the position of the United States in the arms market.

Chapter III of the thesis has described U.S. Foreign Military Sales (FMS). The FMS was traced from the pre-planning phase to the case closure phase. Then the chapter followed with an explanation of the FMS initial and follow-on support and the FMS financial aspects. Finally, as the FMS competitor, the direct commercial sales (DCS) was described.

Chapter IV of the thesis has focused on Bahrain Defense Force's (BDF) in-house mechanism used to deal with the FMS programs. This chapter also explains the advantages, from the perspective of the BDF, of both the FMS and the DCS.

After explaining the policies, the process, and the way of dealing with them, Chapter V answers the research question and explains the areas that are affected by U.S. arms transfers policies.

### **B. SUMMARY**

The purpose of this thesis has been to bring together in one document as much unclassified information as possible concerning the impact of U.S. arms transfers policies on the recipient force. It has identified factors that are affecting the recipient budget planning and his weapon system readiness.

Military assistance is a valuable instrument of U.S. national security and foreign policy. It helps friends and allies deter and defend against aggression and contributes to sharing the common defense burden. It promotes overseas presence and peacetime engagement by improving the defense capabilities of

allies and friends, while demonstrating U.S. commitment to defend common interest. An adequate military capability among allies decreases the likelihood that U.S. forces will be required if conflict arises and increases the odds that U.S. forces will find a relatively favorable situation should a U.S. response be required. As the U.S. armed forces continue to downsize and the requirements for political coalition type defense operation increases in regions of conflict and tension, the military assistance program will remain a critical element of U.S. defense policy.<sup>152</sup>

For the United States, seven different programs can be regarded as part of security assistance if both the concessionary and nonconcessionary programs are included.<sup>153</sup>

In addition to preserving the national security, FMS, one element of the U.S. security assistance program, also boosts the U.S. economy:

... each \$1 billion spent on new procurement in the United States for foreign military sales, whether FMS or foreign national funds, directly creates or preserves over 20,000 man years of employment. This \$1 billion generates in excess of \$1.8 billion of income as well as significant export to help balance U.S. trade with foreign nations. The \$1.8 billion of income, in turn, produces over \$400 million of tax revenue for the U.S. Government.<sup>154</sup>

In answering the research question "what is the impact of the U.S. arms transfers policies on the recipient force planning and readiness?", this research has identified four key areas, the FMS contract clauses, the implementation, the pricing, and the financing policies, that have an impact on the recipient budget planning, rationing, and force development. These areas have become a source of continuing changes to the BDF's Five Years Force Development Plan.

Most FMS customers do not have skilled contract teams. Further, it is not easy for them to understand the U.S. Government's complex contract laws.

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<sup>152</sup> William J. Perry, U.S. Secretary of Defense, "Military Assistance," *The DISAM Journal*, 17, no. 4 (Summer 1995): 50.

<sup>153</sup> Samelson, "Fiscal Year 1994 Security Assistance Legislation," *The DISAM Journal*, 14.

<sup>154</sup> Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 12th Edition, 6.

Therefore, even though the purchaser has specified exact requirements, the United States often fails to reflect them in the contract.

The LOA is the primary document used to transmit FMS prices to the purchasing country. Elements used in calculating FMS prices may include, but are not limited to, the cost of the item; nonrecurring RDT&E and production cost; contract administration costs; accessorial charges; and administrative charges. In the case of a new procurement for items which are usually delivered directly, pricing is established to recover full contract cost plus applicable surcharges.<sup>155</sup>

P&A or the P&R is only an estimate of total cost.<sup>155</sup> According to the General Conditions of DD Form 1513, the purchaser shall make payment(s) to the U.S. Government of the total cost to the U.S. Government of the item, even if the final total cost exceeds ten percent of the amounts estimated on LOA. Thus, the large variance between the estimation and the final cost may make a price evaluation worthless.

FMS is a cost reimbursement agreement which requires advance payment. No matter what the estimated costs, payment schedule, or terms of sale specified in the LOA, the General Conditions of DD Form 1513 requires that the FMS purchaser shall pay in U.S. dollars for the full value of transaction and that there shall be no cost to the U.S. Government.<sup>156</sup>

For a case to be implemented, IAs must request obligational authority, and the OA in turn must be passed for DFAS to the applicable IA. OA allows items to be released from DoD inventories and contracts to be awarded on the purchaser's behalf. Expenditure authority must be requested by the IA from DFAS in order to pay contractor invoices.

The implementation process in some cases may extend to a year or even longer, which will in turn affect the Planning, Programming, and Budgeting System (PPBS) by delaying other scheduled programs. Beside being lengthy, the implementation time for FMS cases can vary from one FMS case to another even though each case is very similar. This variation has made it even more difficult to

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<sup>155</sup> The Defense Institute of Security Assistance Management, *The Management of Security Assistance*, 14th Edition, 148.

<sup>156</sup> U.S. Letter of Offer and Acceptance (LOA), Terms of Sales, DD Form 1513, Section 4.4.

use the already undefined implementation time as a reference for future planning. It has also led to uncertainty and delays.

In addition to the four areas explained above that are affecting the recipient force planning, this thesis has also discussed what is considered by the DoD to be the most effective means to support customers needs, the Cooperative Logistics Supply Support Arrangement (CLSSA).

Logistics support is a key element of combat effectiveness. The BDF, like any other force, must manage resources efficiently and assess the potential capabilities of their limited resources. It is unfortunate that the customer's investment in the CLSSA is not fully optimized. The primary reason for this is the lack of an accurate method of predicting the actual requirement. Thirty-six percent of all investment items on the FMSO I case have had no demand in the past four years, with an estimate of funds obligated for those items of \$319 million.<sup>157</sup>

The policies governing the CLSSA made ammunition, although required for weapon system support, ineligible for CLSSA program. Ammunition can be ordered on a unique FMS case with an "A" case designator. This method faces delays due to the long lead times and the complexity of the parts that make up modern types of ammunition.

Despite the possible problems of depending on foreign suppliers for defense requirements, Bahrain's leadership hopes that these problems can be overcome by maintaining close ties with the allies. For armed forces such as BDF, with limited budget, moderate size, and fully dependent on importing all of its military needs, small mistakes can be expensive, petty delays can be serious, and unstable flow of support can be harmful.

FMS is still very efficient. The fact that there is willingness on the part of foreign governments to continually buy under FMS guidelines prove this. However, room for improvement does exist and some effort is needed in considering the buyer's interest. For the United States to be able to rely on its friends and allies, it is important to help them maintain high weapon system readiness rate by being more responsive to their requests.

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<sup>157</sup> Grafton and Sollmann, "Assessment of Forecasting Methods," 9.

## C. RECOMMENDATIONS

Most of the problems explained above are likely to be solved only by political talks or in the process of U.S. policy improvement. The following areas are recommended for further research:

- An effort needs to be made by the U.S. DoD to consolidate into one document all laws, implementing rules, regulations, directives, instructions, and orders governing the U.S. security assistance, and in particular the foreign military sales. Also an effort should be made to set up policies relative to the country's capability, background, and ability to operate in such a complex system.
- The U.S. DoD needs to come up with an alternative to the SDAF, which was reduced in a defense cut under the Clinton's administration, so that the United States would be responsive to its customer requirements and able to support their emergency needs.
- Both the U.S. and foreign governments should clamp down on FMS case cost overruns. When the United States assumes total responsibility for the management of foreign military sales, it also, by inference, assumes part of the responsibility. This is important especially in this era of increasing competition between arms suppliers.
- The U.S. DoD needs to improve its cost estimates techniques, and work closely with its customers to give them enough warning time regarding any changes in the prices.
- A method needs to be identified that can accurately predict CLSSA investment items. This method must also be capable of quickly adjusting for increasing or decreasing demand trends within the procurement lead time or repair turn around time of the item.
- The U.S. DoD must consider either improving ammunition support to its customers or making ammunition eligible under the CLSSA program.
- A study of the FMS customers' view of the U.S. system support and the customer's needs would provide insight into perceptions and problems.

- Newsmagazines, newspapers, and the electronic media continue to report episodes of corporate and government experience with the total quality management (TQM) approach to organization improvement. Because TQM<sup>159</sup> is certainly, in all respects, an international phenomenon<sup>158</sup> it seems appropriate to study how it can be used to improve the execution of FMS.

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<sup>158</sup> Orion F. White and James F. Wolf, "Deming's Total Quality Management Movement and the Baskin Robbins Problem Part 2: Is This Ice Cream American?" *Administration & Society*, 27, no. 3 (November, 1995): 307.

<sup>159</sup> Ibid. 315.

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